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ATOMIC BURRITO INC
Form 10QSB
May 22, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2001

Commission File Number: 0-24058

ATOMIC BURRITO, INC.
(Exact name of registrant as specified in its charter)

Oklahoma

73-1571194

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

1601 NW Expressway, Suite 1910
Oklahoma City, Oklahoma
(Address of principal executive offices)

73118
(Zip Code)

Registrant's telephone number, including area code: (405) 848-0996

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15 (d) of the Securities Exchange Act of 1934 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 at least the
past 90 days. Yes [X] No []

Shares of Common Stock, \$.001 par value,
outstanding as of May 14, 2001 5,107,121

Traditional Small Business Disclosure Format: Yes [X] No []

ATOMIC BURRITO, INC.

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ATOMIC BURRITO, INC.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
March 31, 2001 and 2000

Forming a part of Form 10-QSB Quarterly Report to the
Securities and Exchange Commission

This quarterly report on Form 10-QSB should be read in conjunction with Atomic Burrito, Inc.'s Annual Report on Form 10-KSB for the year ended December 31, 2000.

ATOMIC BURRITO, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
Page 1 of 2

| | March 31, 2001 (Unaudited) | December 31, 2000 |
|---------------------|----------------------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 66,761 | \$ 78,925 |
| Accounts receivable | 17,829 | 1,918 |

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| | | |
|---|-------------|-------------|
| Accounts receivable due from related party | 24,509 | 9,514 |
| Current portion of notes receivable | 37,266 | 37,266 |
| Inventories | 61,815 | 61,815 |
| Prepaid expenses | 73,846 | 64,169 |
| Deferred income taxes | 100,000 | 100,000 |
| | ----- | ----- |
| Total current assets | 382,026 | 353,607 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT | 2,899,795 | 2,900,795 |
| Accumulated depreciation and valuation reserve | (1,946,237) | (1,901,884) |
| | ----- | ----- |
| | 953,558 | 998,911 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Notes receivable from affiliate | 630,000 | 630,000 |
| Notes receivable, net of current portion shown above | 367,734 | 367,734 |
| Goodwill, net of accumulated amortization of \$13,456 | 76,248 | 80,734 |
| Covenant not to compete, net of accumulated amortization of \$18,333 | 41,668 | 46,667 |
| Deposits and other | 62,938 | 62,938 |
| Investments | 177,400 | 177,400 |
| | ----- | ----- |
| | 1,355,988 | 1,365,473 |
| | ----- | ----- |
| | \$2,691,572 | \$2,717,991 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
Page 2 of 2

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2001 (Unaudited) | December 31, 2000 |
|-----------------------------------|----------------------------------|----------------------|
| | ----- | ----- |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 727,681 | \$ 573,067 |
| Accrued liabilities | 174,722 | 196,010 |
| Note payable | 40,007 | - |
| Note payable - related party | 28,005 | 28,005 |
| Current portion of long-term debt | 798,290 | 798,290 |
| Current portion of capital leases | 45,692 | 45,692 |
| | ----- | ----- |
| Total current liabilities | 1,814,397 | 1,641,064 |
| | ----- | ----- |

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| | | |
|--|-------------|-------------|
| LONG-TERM DEBT, net of current portion shown above | 366,612 | 366,612 |
| | ----- | ----- |
| OBLIGATION UNDER CAPITAL LEASE, net of current portion shown above | 140,325 | 146,648 |
| | ----- | ----- |
| MINORITY INTERESTS | 4,962 | 4,962 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | - | - |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY: | | |
| 10% convertible preferred stock, Series A, \$10 par value, 500,000 shares authorized, 40,000 shares issued and outstanding at March 31, 2001 and December 31, 2000 | 400,000 | 400,000 |
| 10% convertible preferred stock, Series B, \$10 par value, 100,000 shares authorized, no shares issued and outstanding at March 31, 2001 and December 31, 2000 | - | - |
| 10% convertible preferred stock, Series C, \$10 par value, 6,000 shares authorized, 6,000 shares issued and outstanding at March 31, 2001 and December 31, 2000 | 60,000 | 60,000 |
| 10% convertible preferred stock, Series D, \$10 par value, 80,000 shares authorized, no shares issued and outstanding at March 31, 2001 and December 31, 2000 | - | - |
| Common stock, \$.001 par value, 25,000,000 shares authorized; 5,107,121 and 4,915,621 shares issued and outstanding as of March 31, 2001 and December 31, 2000, respectively | 5,107 | 4,916 |
| Additional paid-in capital | 5,120,129 | 5,106,595 |
| Accumulated deficit | (5,219,960) | (5,012,806) |
| | ----- | ----- |
| Total stockholders' equity | 365,276 | 558,705 |
| | ----- | ----- |
| | \$2,691,572 | \$2,717,991 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

| | 2001 (Unaudited) | 2000 (Unaudited) |
|-------------------------|---------------------|---------------------|
| | ----- | ----- |
| REVENUES: | | |
| Beverage and food sales | \$ 914,338 | \$1,099,729 |
| Admission fees | 119,541 | 151,018 |
| Other income | 75,464 | 85,728 |
| | ----- | ----- |
| | 1,109,343 | 1,336,475 |

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| | | |
|---|--------------|--------------|
| COSTS AND EXPENSES: | ----- | ----- |
| Cost of products and services | 1,088,073 | 1,077,002 |
| General and administrative expense | 133,670 | 197,489 |
| Depreciation and amortization | 53,838 | 75,467 |
| Interest expense | 40,916 | 25,704 |
| | ----- | ----- |
| | 1,316,497 | 1,375,662 |
| | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | (207,154) | (39,187) |
| INCOME TAX (EXPENSE) | - | - |
| | ----- | ----- |
| INCOME (LOSS) BEFORE MINORITY INTERESTS | (207,154) | (39,187) |
| MINORITY INTERESTS IN (INCOME) LOSS OF CONSOLIDATED SUBSIDIARIES | - | 11,575 |
| | ----- | ----- |
| NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS | (207,154) | (27,612) |
| LOSS ON DISCONTINUED OPERATIONS | - | (107,717) |
| | ----- | ----- |
| NET INCOME (LOSS) | (207,154) | (135,329) |
| PREFERRED STOCK DIVIDENDS | - | - |
| | ----- | ----- |
| NET INCOME (LOSS) APPLICABLE TO COMMON STOCK | \$ (207,154) | \$ (135,329) |
| | ===== | ===== |
| BASIC EARNINGS PER SHARE | \$ (0.04) | \$ (0.03) |
| | ===== | ===== |
| DILUTED EARNINGS PER SHARE | N/A | N/A |
| | ===== | ===== |
| AVERAGE COMMON AND COMMON EQUIVALENT: BASIC SHARES | 5,107,121 | 4,277,313 |
| | ===== | ===== |

See accompanying notes and accountants' report.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

| Series A 10% Preferred Value of Shares | Series B 10% Preferred Value of Shares | Series C 10% Preferred Value of Shares | Series D 10% Preferred Value of Shares | Common Stock 0.001 par Value (1) | Addition Paid-In Capital |
|---|---|---|---|--|--------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |

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Balance,

| | | | | | | |
|-----------------------|-----------|------|----------|------|---------|-----------|
| December 31, 1999 | \$400,000 | \$ - | \$ - | \$ - | \$4,236 | \$4,754,8 |
| Exercise of stock | - | - | - | - | 53 | 39,6 |
| Cash dividends: | | | | | | |
| Preferred - | | | | | | |
| \$1 per share | - | - | - | - | - | |
| Net loss for the | | | | | | |
| three months | | | | | | |
| March 31, 2000 | - | - | - | - | - | |
| ----- | | | | | | |
| Balance, | | | | | | |
| March 31, 2000 | \$400,000 | \$ - | \$ - | \$ - | \$4,289 | \$4,794,5 |
| ===== | | | | | | |
| Balance, | | | | | | |
| December 31, 2000 | \$400,000 | \$ - | \$60,000 | \$ - | \$4,916 | \$5,106,5 |
| Common stock issued | | | | | | |
| to purchase interest | | | | | | |
| in Boots, Inc. | - | - | - | - | 100 | (1 |
| Issuance of stock for | | | | | | |
| services rendered | - | - | - | - | 91 | 13,6 |
| Net loss for the | | | | | | |
| three months ended | | | | | | |
| March 31, 2001 | - | - | - | - | - | |
| ----- | | | | | | |
| Balance, | | | | | | |
| March 31, 2001 | \$400,000 | \$ - | \$60,000 | \$ - | \$5,107 | \$5,120,1 |
| ===== | | | | | | |

The accompanying notes are an integral part of these financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
Page 1 of 2

| | 2001 (Unaudited) | 2000 (Unaudited) |
|--|---------------------|---------------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(207,154) | \$ (135,329) |
| Adjustments to reconcile net loss to net cash | | |
| used in operating activities - | | |
| Depreciation and amortization | 53,838 | 141,617 |
| Minority interests in earnings of subsidiaries | - | (11,575) |
| Changes in assets (increase) decrease - | | |
| Accounts receivable | (15,911) | (5,515) |
| Due from related parties | (14,995) | - |
| Inventories | - | 5,456 |

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| | | |
|---|-----------|------------|
| Prepaid expenses | 4,048 | 11,289 |
| Deposits and other assets | - | (52,470) |
| Changes in liabilities increase (decrease) - | | |
| Accounts payable | 154,614 | (74,634) |
| Accrued expenses | (21,289) | 42,386 |
| | ----- | ----- |
| Net cash (used in) operating activities | (46,849) | (78,775) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Disposal of property and equipment | 1,000 | |
| Acquisition of property and equipment | - | (174,940) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 1,000 | (174,940) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Partnership distributions to minority interests | - | (1,249) |
| Sale of common stock | - | 39,750 |
| Repayments of notes payable, related parties | - | (67,260) |
| Borrowings under notes payable and capital leases | 214,280 | 303,243 |
| Repayments of notes payable and capital leases | (180,595) | (2,634) |
| | ----- | ----- |
| Net cash provided by financing activities | 33,685 | 271,850 |
| | ----- | ----- |
| NET (DECREASE) INCREASE IN CASH | (12,164) | 18,135 |
| | ----- | ----- |
| CASH, BEGINNING OF PERIOD | 78,925 | 172,622 |
| | ----- | ----- |
| CASH, END OF PERIOD | \$ 66,761 | \$ 190,757 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
Page 2 of 2

| | 2001 (Unaudited) | 2000 (Unaudited) |
|---|---------------------|---------------------|
| | ----- | ----- |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| | | |
| Cash paid for interest | \$ 40,916 | \$ 29,980 |
| | ===== | ===== |

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS

During January 2001, the Company issued 91,500 shares of common stock for public relations services to be rendered. This transaction was valued at \$13,725.

During January 2001, the Company issued an additional 100,000 shares of its common stock to complete the exchange for the 20% interest in Incahoots, Ltd. not owned by the Company. This transaction resulted in a reduction of additional paid-in capital of \$100.

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ATOMIC BURRITO, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - GENERAL

In the opinion of Atomic Burrito, Inc. (the "Company"), the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 2001 and the results of its operations and cash flows for the three months ended March 31, 2001 and 2000. These statements are condensed and, therefore, do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10KSB for the year ended December 31, 2000. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year.

Operating results were reclassified for 2000 to segregate the discontinued operations of the Atomic Burrito Restaurants from continuing operations.

Note 2 - NOTES RECEIVABLE

The Company had the following notes receivable at March 31, 2001:

| | |
|---|-----------|
| 9% note receivable due from a corporation, due October 2005 | \$ 75,000 |
| 9% note receivable due from a corporation, due October 2005 | 150,000 |
| 9% note receivable due from a corporation, due October 2005 | 160,000 |
| 8% note receivable due from an individual, payable in monthly installments of \$3,536, including interest, due September 2007 | 370,000 |
| | ----- |
| | 755,000 |
| Less: Reserve for doubtful collectibility | (350,000) |
| | ----- |
| Total, net of reserve for collectibility | 405,000 |

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| | |
|-------------------|------------|
| Current portion | 37,266 |
| | ----- |
| Long-term portion | \$ 367,734 |
| | ===== |

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Note 3 - NOTES RECEIVABLE FROM AFFILIATES

The Company had the following notes receivable due from affiliates as of March 31, 2001:

| | |
|---|------------|
| 6% note receivable due from a corporation in March 2001 | \$ 100,000 |
| 6% note receivable due from a corporation in April 2002 | 50,000 |
| 8% note receivable due from a corporation in April 2001 | 480,000 |
| | ----- |
| Total notes receivable - affiliates | \$ 630,000 |
| | ===== |

As approved by the Board of Directors, interest income on these notes has been waived through April, 2003, contingent upon the continued waiver of dividends on the 40,000 shares of 10% convertible series A preferred stock held by the affiliate. The Company may also accept the conversion of a \$35,000 note payable to the affiliate to equity in the Company, or the waiver of interest due by the affiliate to the Company on the said note. The Board of Directors has approved a plan by the affiliate to pay, offset, or otherwise reduce amounts owed by it to the Company during the second quarter of 2001, in addition to a previous agreement to pay at least 5% of the principle balance on the \$480,000 receivable note annually beginning in 2002 until maturity.

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2001, include the following:

| | |
|----------------------------------|-------------|
| Leasehold and other improvements | \$1,832,453 |
| Restaurant and club equipment | 653,155 |
| Furniture and fixtures | 328,785 |
| Signage | 85,402 |
| | ----- |
| | 2,899,795 |
| Less accumulated depreciation | (1,946,237) |
| | ----- |
| Total property and equipment | \$ 953,558 |
| | ===== |

Certain property and equipment located at the AB of OKC-I restaurant has been reduced to net realizable value by a reserve of \$200,000 established by management.

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Note 5 - DISCONTINUED OPERATIONS

On August 30, 2000, the Company announced its intentions to discontinue its Atomic Burrito Restaurant operations. Accordingly the following sales occurred prior to December 31, 2000:

- (1) The Company president resigned and formed Three B's Restaurant Group, Inc. (Three B's), which bought from the Company its subsidiary company, which held the restaurant concept, Atomic Development, Inc. (Development) and two companies which held the majority interest in two restaurant locations, AB of Tulsa-I, L.L.C. (Tulsa) and AB of Wichita-I, L.L.C. (Wichita) for \$425,000 on November 30, 2000. Three B's acquired the leases for the two restaurant locations and all assets and liabilities of the entities sold. However, the Company was required to reduce accounts payable of Tulsa by \$40,000 and loan Wichita \$40,000 which is to be repaid beginning May 30, 2001 at an interest rate of 9% per annum with a first payment of \$4,000 and \$550 monthly thereafter until October 31, 2005 with the remaining balance being due at that time. At December 31, 2000, no funds had been advanced to Three B's on this note.

Three B's issued three notes as consideration for the sale of the above mentioned entities, as follows: Development - \$75,000, Tulsa - \$160,000 and Wichita - \$150,000. All notes bear interest at a rate of 9% per annum, have monthly payments scheduled to commence June 1, 2001 with final payment due on October 31, 2005. The notes are collateralized by all of the assets of the entities acquired by Three B's with requirements of the Company to provide satisfaction on certain liabilities of the entities sold to Three B's. In connection with this transaction, the Company has provided for a reserve of \$250,000 to cover future possible losses which could arise from disputes resulting in adjustments in amounts paid on the notes receivable.

- (2) The Company sold its Norman restaurant location to Atomic Restaurant Group, L.L.C. (ARG) on September 15, 2000. The sales price was a \$370,000 note payable in installments at 8% beginning November 15, 2000 for \$3,535.91 until paid in full on September 15, 2007. The Company sold all its assets at the Norman location but was still liable for the liabilities in the AB of Norman-I, L.L.C. entity, which included the obligations on the Norman location equipment. The Company has provided a \$100,000 reserve to cover future possible losses, which could arise from disputes resulting in adjustments in amounts paid on the note receivable.

The Houston location and the Oklahoma City locations ceased operations and the equipment at the Houston location has been written down to \$120,000, which is the anticipated sales price of the equipment to Three B's. The Oklahoma City property has been written down by \$200,000 and the Company is currently paying the rental on this location and is responsible for the liabilities of the Oklahoma City location.

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Note 6 - SUBSEQUENT EVENTS

On March 7, 2001, the Company agreed to the sale of its nightclub business in Wichita, Kansas for \$1,200,000 in cash. The sale includes the equipment and improvements, the lease, permits and licenses at this

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location together with certain other assets at this location. The Company closed on this sale on April 11, 2001, realizing a gain of approximately \$682,000 in connection with this transaction.

PART 1 - Item 2

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

PART I

Special Note Regarding Forward-Looking Statements

Certain statements in this Form 10-QSB under "Item 1. Description of Business", "Item 3. Legal Proceedings", "Item 6. Management's Discussion and Analysis" and elsewhere constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other facts which may cause the actual results, performance or achievements of Western Country Clubs, Inc. (the "Company") and its subsidiaries and affiliated partnerships to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; competition; success of operating initiatives; development and operating costs; advertising and promotional efforts; adverse publicity; customer appeal and loyalty; availability, locations and terms of sites for nightclub development; changes in business strategy or development plans; quality of management; availability, terms and development of capital; business abilities and judgment of personnel; availability of qualified personnel; food, labor and employee benefit costs; changes in, or the failure to comply with government regulations; regional weather conditions; construction schedules; and other factors referenced in the Form 10-QSB. The use in this Form 10-QSB of such words as "believes", "anticipates", "expects", "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. The success of the Company is dependent on the efforts of the Company and its management and personnel and the manner in which they operate and develop stores.

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General

The Company owns and operates two country and western nightclubs, one in St Louis, Missouri and one in Wichita Kansas.

In June 1998, the Company formed a subsidiary corporation, Atomic Burrito, Inc., through which to develop a new restaurant concept. Subsequently, Atomic Burrito, Inc. entered into license agreements for two "Atomic Burrito" restaurants to be located in Stillwater and Norman, Oklahoma, and entered into a third license agreement for a restaurant in Longview, Washington. In addition, in October 1998, the Company entered into a joint venture agreement with New York Bagel Enterprises, Inc., ("New York Bagel") for the joint development of "Atomic Burrito" restaurants. The agreement provides for New York Bagel to contribute certain of its restaurant locations, including leases, leasehold improvements, and equipment for a 40% interest in the operation, while the Company would contribute up to \$150,000 for the remodel and conversion costs, as well as for additional equipment. The first unit opened in March 1999 in Tulsa, Oklahoma, while the second unit opened in April 1999 in Wichita, Kansas.

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In September 1999, the Company and New York Bagel agreed to terminate the joint venture agreement as it related to additional development, and New York Bagel agreed to sell its interest in the two operations in Tulsa and Wichita to the Company. New York Bagel's stated reasons for the termination were the lack of expansion capital on the part of either of the parties, and their desire to move in a different direction. Subsequently, New York Bagel filed for protection under Chapter 13 of the Federal Bankruptcy Statutes. The Company did not exercise its option to purchase New York Bagel's interest in these restaurants and as described below, subsequently sold its interest in these operations to its former president.

In December, 1999, the original licensees who had previously opened Atomic Burrito units in Stillwater and Norman, Oklahoma, approached the Company with a plan to sell their Norman restaurant to the Company. They had previously closed their Stillwater restaurant and were in the process of expanding their other restaurant and brew pub operations in both Oklahoma and Texas. Thereafter, the Company entered into an agreement, effective December 31, 1999, to purchase the Norman restaurant from the licensee for the issuance of 360,000 (valued at \$270,000) shares of the Company's common stock as well as the assumption of certain liabilities totaling \$60,967, giving the transaction a total value of \$330,967.

During February, 2000, the Company opened an Atomic Burrito restaurant in Oklahoma City in which it owned a 100% interest.

During September, 1999, the Company opened an Atomic Burrito restaurant in Houston, Texas in which it owned a 50% interest.

During September, 2000, The Company's Board of Directors decided to discontinue its efforts to develop and expand the Atomic Burrito Restaurant concept.

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In September 2000, the Company sold the property, equipment, and leasehold improvements on its Norman Atomic Burrito restaurant to an LLC in which one of the principals is a former Company employee. In connection with the sale of these assets, the LLC agreed to sublease land and building associated with this restaurant. This property was sold in exchange for a \$370,000 8% note receivable.

In November, the Company sold its interest in the Tulsa and Wichita Atomic Burrito restaurant operations to a company controlled by the Company's former president for \$180,000 and \$170,000 respectively. The sale was consummated with a \$40,000 down payment and the issuance of 8% notes receivable in the amounts of \$160,000 for the Tulsa operations and \$150,000 for the Wichita operations.

Also in November the Company sold its stock in Atomic Development, Inc., a wholly owned subsidiary established to oversee the development and franchise of the Atomic Burrito concept, for \$75,000, to the same company that purchased the Tulsa and Wichita Atomic Burrito restaurants.

At December 31, 2000, the Company recorded an allowance for bad debts in the amount of \$350,000 associated with the above described notes. This charge was taken to the losses on discontinued operations for financial reporting purposes.

In September, 2000, the Company closed its Houston Atomic Burrito location. The leasehold improvements on this location were forfeited to the landlord in release from any future lease obligations. The Company is attempting to sell or lease this equipment as of year-end.

In September, 2000, the Company closed its Oklahoma City Atomic Burrito location

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and is currently seeking a buyer to take over this location and assume the lease. As of December 31, 2000, the Company has reduced the carrying value of these assets by an additional \$150,000 to reflect the anticipated loss on ultimate disposition. This charge was also taken to the loss on discontinued operations.

Liquidity and Capital Resources

As of March 31, 2001, the Company had cash of \$66,731, which was generated from operating activities, financing activities and investing activities. This amount represented a decrease \$12,164 or 6.38% from cash at year-end 2000, and a decrease of \$123,996 from the first quarter of 2000. The decrease in cash from year-end is a result of operating losses incurred during the first quarter of 2001.

As of March 31, 2001, the Company's working capital position (current assets minus current liabilities) was a negative \$(1,432,371) compared to a negative \$(1,287,457) at year-end 2000. The decrease of \$144,914 was due to operating losses incurred during the first quarter of 2001. Because of the sale of the In Cahoots night club in Wichita, Kansas, as discussed in the Notes to the Financial Statements, management does not believe the decrease in working capital position will have any material effect on its ability to service its debts and continue the expansion of its restaurant division.

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Property and equipment is made up primarily of assets required to operate the St. Louis and Wichita clubs and certain restaurant equipment which the Company was attempting to dispose of.

The deferred income tax asset remains at a balance of \$100,000. This asset resulted from the net operating loss carryforwards from the loss on the write-off of the Tucson nightclub in a prior year, as well as from other operating losses contributing to the net operating loss carryforward. The Company anticipates that this credit will be utilized upon the sale of the Wichita night club which occurred on April 10, 2001. At December 31, 2000 the Company had approximately an additional \$2,800,000 in deferred tax assets which were fully reserved and not reflected on the Company's balance sheet at that date. At December 31, 2000 the Company had approximately \$4,400,000 in net operating losses which will expire commencing in 2013 if not utilized.

On April 10, 2001, the Company sold its Wichita Kansas night club operations for \$1,200,000. This sale resulted in a gain of approximately \$682,000 and provided cash of approximately \$1,100,000 to pay down existing debts and to finance future expansions of the night club operations.

In April, 2001, certain notes receivable totaling \$480,000 from an affiliated company become due. Management anticipates that the interest due will be received and that the notes will be renewed.

Results of Operations - Quarter Ended March 31, 2001, Compared to the Quarter Ended March 31, 2000

For the period ended March 31, 2001, total revenue of the Company decreased by \$185,391 or 17% to \$1,109,343 compared with total revenues of \$1,336,475 for the first quarter of 2000. This decrease in revenue reflects decreasing beverage and food sales at the Company's two nightclubs of \$185,391, a reduction in admission fees of \$31,477, and a reduction in other income of \$10,264.

Total costs and expenses during the current period decreased from \$1,375,662 for the first quarter of 2000 to \$1,316,497. Costs of products and services

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increased by \$11,071 to \$1,088,073 for the period compared to \$1,077,002 for the same period in 2000.

Depreciation and amortization decreased by \$21,629 or 29% to \$53,838 compared to \$75,467 for the same period in 2000. This decrease was due primarily to the disposition of restaurant leasehold improvements and equipment associated with restaurants sold during the fall of 2000.

Interest expense increased by \$15,212 to \$40,916 from \$25,704 for the first quarter of 2000. This increase is a result of additional borrowings incurred subsequent to March 31, 2000.

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General and administrative expense decreased by \$63,819 to \$133,670 as compared to \$197,489 for the same period in 2000. This is a result of managements efforts to cut general and administrative costs.

During the quarter ended March 31, 2000, the Company accrued \$107,717 in losses associated with the discontinuance of its Atomic Burrito restaurant operations.

The Company's net loss for the current period was a \$(207,154) compared to a net loss of \$(135,329) for the same period in 2000.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Special Note: Certain statements set forth below under this caption constitute forward-looking statements" within the meaning of the Reform Act. See "Special Note Regarding Forward Looking Statements" for additional factors relating to such statements.

The Company is involved in various legal actions associated with the normal conduct of its business operations. No such actions involve known material gain or loss contingencies not reflected in the consolidated financial statements of the Company.

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

During the first quarter of 2001, the Company did not submit any matter to a vote of its shareholders.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits:

11. Statement Re: Computation of Per Share Earnings

(b) Reports on Form 8-K

No reports 8-K were filed during the quarter ended March 31, 2001.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 21, 2001

Atomic Burrito, Inc.

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By: /s/ Don W. Grimmett

 Don W. Grimmett, President

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EX-11

Computation of Earnings per Share

ATOMIC BURRITO, INC.
 COMPUTATION OF EARNINGS PER SHARE
 (UNAUDITED)

| | Three Months Ended March 31, 2000 | 1999 |
|--|--------------------------------------|-----------------------|
| | ----- | ----- |
| BASIC EARNINGS PER SHARE: | | |
| Net income | \$ (207,154) | \$ (135,329) |
| Dividends on preferred stock | - | - |
| | ----- | ----- |
| Net income applicable to common stock | \$ (207,154) ===== | \$ (135,329) ===== |
| Shares used in computing basic earnings per share | 5,107,121 | 4,277,313 |
| Basic earnings per common share | \$ (0.04) ===== | \$ (.03) ===== |
| DILUTED EARNINGS PER SHARE: | | |
| Net income | N/A ===== | N/A ===== |

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