

CUCOS INC
Form 10QSB
December 04, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

Quarterly Report under Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended October 21, 2001.

OR

Transition Report Pursuant to Section 13 Or 15 (D) of the Securities Exchange Act Of 1934

Commission file number 0-12701

For the transition period from _____ to _____

CUCOS INC.

(Exact name of small business issuer as specified in its charter)

| | |
|---|--------------------------------------|
| LOUISIANA | 72-0915435 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|--|------------|
| 110 Veterans Blvd., Suite 222, Metairie, Louisiana | 70005 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number, including area code--504-835-0306

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the post 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 No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,663,605 shares of common stock, no par value, as of November 30, 2001.

Transitional Small Business Disclosure Format (check one):

Yes [] No [X]

Part I--Financial Information

ITEM I. FINANCIAL STATEMENTS

CUCOS INC.
BALANCE SHEET

| | <u>Oct. 21, 2001</u> |
|--|----------------------|
| | UNAUDITED |
| Assets | |
| Current Assets | |
| Cash | \$ 229,862 |
| Receivables less allowance for doubtful accounts of \$23,901 | 70,367 |
| Inventories | 121,497 |
| Prepaid Expenses | 175,305 |
| Other Current Assets | 3,608 |
| TOTAL CURRENT ASSETS | 600,639 |
| Property and Equipment | |
| Equipment | 1,690,446 |
| Leasehold Improvements | 2,842,615 |
| | 4,533,061 |
| Less Accumulated Depreciation and Amortization and Impairment Reserves | 2,918,841 |
| | 1,614,220 |
| Deferred Costs Less Accumulated Amortization of \$127,043 | 185,813 |
| Other Assets | 216,645 |
| TOTAL ASSETS | \$2,617,317 |
| | |

| | |
|--|--------------------|
| Liabilities and Shareholders' Equity | |
| Current Liabilities | |
| Trade Accounts Payable | 1,300,297 |
| Accrued Interest | 656,036 |
| Accrued Expenses | 491,866 |
| Current Portion of Long-Term Debt | 53,542 |
| Current Portion of Debt in Default | 3,105,031 |
| TOTAL CURRENT LIABILITIES | 5,606,772 |
| | |
| Long-Term Debt, Less Current Portion | 332,716 |
| Deferred Revenue | 209,903 |
| | |
| Net Capital Deficiency | |
| Convertible Preferred Stock, No Par Value - 1,000,000 Shares Authorized, 400,000 Issued and Outstanding, Stated at Liquidation Preference Value of \$1 Per Share | 400,000 |
| Common Stock, No Par Value - 20,000,000 Shares Authorized, 2,663,605 Shares Issued and Outstanding | 5,264,649 |
| Additional Paid-in Capital | 110,788 |
| Retained Earnings (Deficit) | (9,307,511) |
| NET CAPITAL DEFICIENCY | (3,532,074) |
| TOTAL LIABILITIES AND NET CAPITAL DEFICIENCY | \$2,617,317 |

See Notes to Financial Statements

Part I--Financial Information

CUCOS INC.
STATEMENTS OF OPERATIONS
UNAUDITED

| | 16 Weeks | 16 Weeks |
|--|---------------|---------------|
| | Ended | Ended |
| | Oct. 21, 2001 | Oct. 22, 2000 |
| | | |

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| | | |
|--|--------------|--------------|
| Restaurant Operations | | |
| Sales of Food and Beverages | \$4,073,203 | \$ 4,558,800 |
| Restaurant Expenses: | | |
| Cost of Sales | 1,099,856 | 1,180,016 |
| Restaurant Labor and Benefits | 1,444,566 | 1,671,460 |
| Other Operating Expenses | 791,615 | 905,728 |
| Occupancy Costs | 446,326 | 506,857 |
| Total Restaurant Expenses | 3,782,363 | 4,264,061 |
| Income from Restaurant Operations | 290,840 | 294,739 |
| | | |
| Royalties and Franchise Revenues, Net of Expenses of \$429 and \$429, respectively | 34,839 | 34,193 |
| Commissary and Other Income | 8,192 | 6,714 |
| | 333,871 | 335,646 |
| | | |
| Operations Supervision Expenses | 123,074 | 169,475 |
| Corporate Expenses | 263,321 | 265,296 |
| Operating Income (Loss) | (52,524) | (99,125) |
| | | |
| Interest Expense | 173,267 | 211,536 |
| Income (Loss) Before Income Taxes and Extraordinary Item | (225,791) | (310,661) |
| Income Taxes | - | - |
| Net Loss | \$ (225,791) | \$ (310,661) |
| | | |
| Weighted Average Shares of Common Stock and Common Share Equivalents Outstanding - Basic and Diluted | 2,663,605 | 2,663,605 |
| | | |
| Net Loss Per Share - Basic and Diluted | \$(0.08) | \$(0.12) |

See Notes to Financial Statements

Part I--Financial Information

CUCOS INC.
STATEMENTS OF CASH FLOWS
UNAUDITED

| | 16 Weeks | 16 Weeks |
|---|---------------|------------------|
| | Ended | Ended |
| | Oct. 21, 2001 | Oct. 22, 2000 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$57,902 | \$(164,804) |
| INVESTING ACTIVITIES | | |
| Purchase of Property and Equipment | (56,002) | (41,083) |
| NET CASH USED IN INVESTING ACTIVITIES | (56,002) | (41,083) |
| FINANCING ACTIVITIES | | |
| Proceeds from Borrowing | - | 220,000 |
| Principal Payments on Borrowings | (13,830) | (21,902) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (13,830) | 198,098 |

| | | |
|--|-----------|-----------|
| | | |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (11,930) | (7,789) |
| | | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 241,792 | 268,712 |
| | | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$229,862 | \$260,923 |

See Notes to Financial Statements

CUCOS INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. The Company: Cucos Inc. (the "Company") owns and franchises Mexican restaurants under the name "Cucos". At October 21, 2001, ten Company-owned restaurants and four franchised restaurants were in operation. At the end of the Comparable Quarter, there were twelve company-owned and four franchised restaurants in operation. Two company-owned restaurants closed during the second half of Fiscal 2001.
2. Fiscal Year: The Company uses a 52/53 week year for financial reporting purposes with the Company's fiscal year ending on the Sunday closest to June 30 of each year. Fiscal 2002 will end on June 30, 2002, and consists of one sixteen-week quarter that ended October 21, 2001, and three twelve-week quarters ending January 13, 2002, and April 7, 2002, and June 30, 2002. Fiscal years 2001 and 2002 are both 52 week years.
3. The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principals. It is suggested that these financial statements be read in conjunction with the Company's Annual Report for the fiscal year ended July 1, 2001. In the opinion of management, these financial statements contain all normal recurring adjustments necessary to fairly present the financial results for the sixteen weeks ended October 21, 2001. Operating results for the period shown are not necessarily indicative of the operating results expected for the full fiscal year ending June 30, 2002.
4. Per share amounts are based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding.
5. Because of the Company's recurring losses from operations, its net capital deficiency, and its default on its credit facility, there is substantial doubt about the Company's ability to continue as a going concern. The Company has taken steps to refocus its operations, reverse sales declines and increase restaurant profitability. However, considering, among other things, the Company's historical operating losses and the current lack of commitments from third parties to provide short-term or long-term financial resources, there can be no assurance that this action will have the expected effect on the Company's results of operations and its cash flows in fiscal 2002.

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

RESULTS OF OPERATIONS

Sales of Food and Beverage for the sixteen weeks ending October 21, 2001 (the "Current Quarter") decreased \$485,597 (10.65%) to \$4,073,203 from \$4,558,800 for the sixteen weeks ended October 22, 2001 (the "Comparable Quarter"). The decrease in sales is primarily the result of two fewer restaurants in operation during the Current Quarter compared to the Comparable Quarter. The restaurants in Pascagoula, Mississippi, and Birmingham, Alabama, were closed in the second half of Fiscal 2001. Sales of Food and Beverage for restaurants open throughout both the Current and Comparable Quarters ("Comparable Restaurants") declined \$70,827 (1.71%). The 5.4% decline in Guest Count for the Comparable Restaurants was offset by an increase in Video Poker income of 61.8%. The increase in Video Poker revenue resulted from a larger percentage paid to the Company during the Current Quarter compared to the Comparable Quarter.

Restaurant Expenses in the Current Quarter decreased \$481,698 (11.3%) to \$3,782,363 from \$4,264,061 in the Comparable Quarter. Restaurant Expenses for Comparable Restaurants declined \$53,237 (1.39%).

A summary of the components of restaurant expenses are:

| <u>Description</u> | Current Quarter | Comparable Quarter |
|-------------------------------|--------------------|-----------------------|
| | | |
| Cost of Sales | 27.0% | 25.9% |
| Restaurant Labor and Benefits | 35.5 | 36.7 |
| Other Operating Expenses | 19.4 | 19.9 |
| Occupancy Costs | 11.0 | 11.0 |
| Total Restaurant Expenses | 92.9% | 93.5% |

Net Royalties and Franchise Revenues increased \$646 (1.89%) to \$34,839 in the Current Quarter compared to \$34,193 during the Comparable Quarter. The increase is a result of a 1.87% increase in royalties from the four franchised restaurants. Expenses associated with Franchise Revenue were unchanged.

Commissary and Other Income rose \$1,478 (22.0%) to \$8,192 during the Current Quarter versus \$6,714 during the Comparable Quarter. The increase represents increased amortization of incentive income the Company received from its Video Poker Operator offset by a small write-off of obsolete Marketing inventory items.

Operations Supervision Expenses decreased \$46,401 (27.4%) to \$123,074 during the Current Quarter compared to \$169,475 during the Comparable Quarter. Two supervisory positions were eliminated during the second half of Fiscal 2001.

Corporate Expenses showed a small decline of \$1,975 (.74%) to \$263,321 for the Current Quarter from \$265,296 for the Comparable Quarter.

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Interest Expenses decreased \$38,269 (18.09%) to \$173,267 during the Current Quarter versus \$211,536 during the Comparable Quarter. The decline reflects reduced interest expense associated with the Company's major lender based on declining interest per amortization schedule.

LIQUIDITY AND CAPITAL RESOURCES

During the Current Quarter, the Company's operating activities provided \$57,902 in cash, versus cash used of \$164,804 during the Comparable Quarter. During the Comparable Quarter, the Company, pursuant to a forbearance agreement, remitted \$240,000 to its commercial lender.

Net cash used by investing activities was \$56,002 in the Current Quarter compared to cash used of \$41,083 during the Comparable Quarter for purchases of property and equipment.

Net cash used by financing activities was \$13,830 during the Current Quarter compared to cash provided of \$198,098 during the Comparable Quarter. During the Comparable Quarter, the Company signed a line of credit agreement with Jacksonville Restaurant Acquisition Corp. ("JRAC") for a maximum of five million dollars. \$220,000 was drawn down from the line during the Comparable Quarter. Payments on long term debt was \$13,830 during the Current Quarter and \$21,902 during the Comparable Quarter.

The Company considers earnings before interest, taxes, depreciation and amortization (EBITDA) to be a relevant indicator of liquidity. EBITDA is not a measure defined by accounting principles generally accepted in the United States, however. The amounts presented below may not be comparable to similarly titled measures reported by other companies. EBITDA increased to \$74,277 for Current Quarter compared to \$49,545 during the Comparable Quarter.

| | EBITDA | |
|---|---------------------|---------------|
| | Sixteen Weeks Ended | |
| | Oct. 21, 2001 | Oct. 22, 2000 |
| | | |
| Net Loss | \$(225,791) | \$(310,661) |
| | | |
| Add: | | |
| Depreciation and amortization of property and equipment | 126,801 | 148,670 |
| Interest | 173,267 | 211,536 |
| | | |
| EBITDA | \$74,277 | \$49,545 |

The Company has been in default under its credit facility with its principal commercial lender since October 17, 1999.

In May 1999, the Company and its commercial lender entered into a forbearance agreement whereby the commercial lender agreed to defer the Company's requirement to make required principal and interest payments for May - July 1999 until April 2001, and to defer required principal payments for August - October 1999 until April 2001. The Company was unable to make the required payments beginning October 1, 1999. On October 17, 1999, the company received notice from its lender that under the terms of the credit facility, the entire principal amount outstanding, \$3,105,031, was immediately due, and the lender could take possession of the assets pledged as collateral. On September 29, 2000, the commercial lender agreed pursuant to a forbearance agreement, to not exercise its right to the collateral until October 31, 2000. Since October 31, 2000, the commercial lender has extended month to month forbearance agreements with the stipulation that the Company pay required interest payments each month, and the Company either refinances its debt, merge, or sell the Company. The Company was not able to pay the required interest payment in October 2001. There can be no assurance that the commercial lender will continue to forbear from attempting to enforce rights against its collateral. If the commercial lender were to attempt to enforce such rights, the Company could be required to cease operations or to operate only under the protection of the United States Bankruptcy Courts.

On September 29, 2000, the Company entered into a ten year Line of Credit Agreement (the "Credit Agreement") with JRAC, the Company's majority shareholder. Under the terms of the Credit Agreement, JRAC may lend the Company up to \$5 million for working capital, payment of outstanding indebtedness, refurbishing units, establishing new units, and future acquisitions. The loan is secured by substantially all of the assets of the Company. Advances will accrue interest at an annual rate equal to three percentage points above the prime-lending rate of Wells Fargo Bank. JRAC will receive an origination fee of two percent of the amount of each cash advance. The Company has the right to prepay in whole or part at any time any indebtedness outstanding under the Credit Agreement.

During fiscal 2001, JRAC advanced a total of \$320,000 to the Company. Further advances under this line of credit are subject to the ability of JRAC to fund such advances. The Company believes that JRAC currently lacks such ability. Under the terms of the Credit Agreement, the Company was scheduled to begin monthly principal and interest payments on January 1, 2001, but has not done so. JRAC has not, at this time, placed the Company in default or initiated collection proceedings against the Company.

FORWARD-LOOKING STATEMENTS

Forward-looking statements regarding management's present plans or expectations for new unit openings, remodels, other capital expenditures, the financing thereof, and disposition of impaired units, involve risks and uncertainties relative to return expectations and related allocation of resources, and changing economic or competitive conditions, as well as the negotiation of agreements with third parties, which could cause actual results to differ from present plans or expectations, and such differences could be material. Similarly, forward-looking statements regarding management's present expectations for operating results involve risk and uncertainties relative to these and other factors, such as advertising effectiveness and the ability to achieve cost reductions, which also would cause actual results to differ from present plans. Such differences could be material. Management does not expect to update such forward-looking statements continually as conditions change, and readers should consider that such statements speak only as to the date hereof.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS.

None, except as previously reported.

ITEM 2. CHANGES IN SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

The Company has a credit facility with a commercial lending institution. This credit facility consists of a term loan to be repaid in monthly payments through December 2007, and is secured by the restaurant operating properties.

The Company has been in default under its credit facility with its principal commercial lender since October 17, 1999. In May 1999, the Company and its commercial lender entered into a forbearance agreement whereby the commercial lender agreed to defer the Company's requirement to make required principal and interest payments for May - July 1999 until April 2001, and to defer required principal payments for August - October 1999 until April 2001. The Company was unable to make the required payments beginning October 1, 1999. On October 17, 1999, the company received notice from its lender that under the terms of the credit facility, the entire principal amount outstanding, \$3,105,031, was immediately due, and the lender could take possession of the assets pledged as collateral. On September 29, 2000, the commercial lender agreed pursuant to a forbearance agreement, to not exercise its right to the collateral until October 31, 2000. Since October 31, 2000, the commercial lender has extended month to month forbearance agreements with the stipulation that the Company pay required interest payments each month, and the Company either refinances its debt, merge, or sell the Company. The Company was not able to pay the required interest payment in October, 2001. There can be no assurance that the commercial lender will continue to forbear from attempting to enforce rights against its collateral. If the commercial lender were to attempt to enforce such rights, the Company could be required to cease operations or to operate only under the protection of the United States Bankruptcy Courts.

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.

a. Exhibits.
None

b. Reports on Form 8-K.
None.

CUCOS INC.

SIGNATURE

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.

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CUCOS INC.

(Registrant)

Date: December 4, 2001

By: /s/ James W. Osborn

James W. Osborn, President and

Chief Executive Officer