CUCOS INC
Form 10QSB
March 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended January 13, 2002.

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 [X] 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 February 10, 2002.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

Part I--Financial Information

ITEM I. FINANCIAL STATEMENTS

CUCOS INC.
BALANCE SHEET

	Jan. 13, 2001
	UNAUDITED
Assets	
Current Assets	
Cash	$ 222,133
Receivables less allowance for doubtful accounts of $26,439	70,391
Inventories	114,977
Prepaid Expenses	178,980
Other Current Assets	3,608
TOTAL CURRENT ASSETS	590,089
Property and Equipment	
Equipment	1,699,869
Leasehold Improvements	2,863,130
	4,562,999
Less Accumulated Depreciation and Amortization and Impairment Reserves	3,006,998
	1,556,001
Deferred Costs Less Accumulated Amortization of $143,350	178,824
Other Assets	214,646
TOTAL ASSETS	$2,539,560

Liabilities and Shareholders' Equity	
Current Liabilities	
Trade Accounts Payable	1,242,891
Accrued Interest	790,828
Accrued Expenses	468,977
Current Portion of Long-Term Debt	53,542
Current Portion of Debt in Default	3,105,031
TOTAL CURRENT LIABILITIES	5,661,269
Long-Term Debt, Less Current Portion	326,142
Deferred Revenue	192,464
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)	(9,415,752)
NET CAPITAL DEFICIENCY	(3,640,315)
TOTAL LIABILITIES AND NET CAPITAL DEFICIENCY	$2,539,560

See Notes to Financial Statements

Part I--Financial Information

CUCOS INC.
STATEMENTS OF OPERATIONS
UNAUDITED

	12 Weeks	12 Weeks	28 Weeks	28 Weeks
	Ended	Ended	Ended	Ended
	Jan. 13, 2002	Jan. 14, 2001	Jan. 13, 2002	Jan. 14, 2001

Restaurant Operations				
Sales of Food and Beverages	$2,818,348	$3,176,305	$6,891,552	$7,735,104
Restaurant Expenses:				
Cost of Sales	726,350	796,066	1,826,306	1,976,083
Restaurant Labor and Benefits	1,023,131	1,216,196	2,467,687	2,887,655
Other Operating Expenses	471,103	484,672	1,262,719	1,390,400
Occupancy Expenses	326,648	359,423	772,974	866,280
Total Restaurant Expenses	2,547,222	2,856,357	6,329,586	7,120,418
Income from Restaurant Operations	271,126	319,948	561,966	614,686
Royalties and Franchise Revenues, Net of Expenses of $751 and $1,394	24,341	23,647	59,180	57,840
Commissary and Other Income	8,055	5,940	16,248	12,655
	303,522	349,535	637,394	685,181
Operations Supervision Expenses	O9,807	120,198	202,881	289,673
Corporate Expenses	185,028	243,440	448,350	508,736
Operating Income (Loss)	38,687	(14,103)	(13,837)	(113,228)
Interest Expense	147,927	167,866	320,194	379,402
Loss Before Income Taxes	(108,240)	(181,969)	(334,031)	(492,630)
Income Taxes	0	0	0	0
Net Loss	$(108,240)	$(181,969)	$(334,031)	$(492,630)
Weighted Average Shares of Common Stock -- Basic and Diluted	2,663,605	2,663,605	2,663,605	2,663,605
Net Loss Per Share - Basic and Diluted	(0.04)	(0.07)	(0.13)	(0.18)

See Notes to Financial Statements

Part I--Financial Information

CUCOS INC.
STATEMENTS OF CASH FLOWS
UNAUDITED

	28 Weeks	28 Weeks
	Ended	Ended
	Jan. 13, 2002	Jan. 14, 2001
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 86,685	$ (116,842)
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(85,940)	(95,947)
NET CASH USED IN INVESTING ACTIVITIES	(85,940)	(95,947)
FINANCING ACTIVITIES		
Proceeds from Borrowing	-	270,000
Principal Payments on Borrowings	(20,404)	(37,111)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(20,404)	232,889
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,659)	20,100

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	241,792	268,712
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$222,133	$ 288,812
NON CASH FINANCING AND INVESTING ACTIVITIES	-	-

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 January 13, 2002, 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 twelve weeks ended January 13, 2002 (the "Current Quarter") decreased $357,957 (11.2%) to $2,818,348 from $3,176,305 for the twelve weeks ended January 14, 2001 (the "Comparable Quarter"). The decrease in sales is primarily the result of two fewer restaurants in operation during the Current Quarter versus the Comparable Quarter. The restaurants in Pascagoula, Mississippi, and Birmingham, Alabama, were closed in the second half of Fiscal 2001. In addition, the restaurant in Ruston, Louisiana, experienced a 24% decline in sales due to operational problems with previous management in the restaurant, competitive intrusion, and a decline in advertising media. It is possible that additional declines in sales in Ruston or other individual restaurants could result in the closing of such restaurants and charges for impairment of property and equipment under Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (SFAS 121).

Sales of Food and Beverages for the twenty eight weeks ended January 13, 2002 (the "Current First Half") decreased $843,552 (10.9%) to $6,891,552 from $7,735,104. The decrease is primarily due to ten restaurants in operation during the Current First Half compared to twelve in operation during the Comparable First Half. Restaurants in operation during both Halves ("Comparable Restaurants") experienced a 5% decrease in guest counts or 2% of sales.

Restaurant Expenses in the Current Quarter decreased $309,135 (10.8%) to $2,547,222 from $2,856,357 in the Comparable Quarter. The closed restaurants accounted for $292,976 of the decrease. Comparable Restaurants' expenses declined approximately 1%.

During the Current First Half, restaurant expenses declined $790,832 (11.1%) to $6,329,586 from $7,120,418 during the Comparable First Half. Expenses for Comparable Restaurants open throughout both halves decreased $69,395 (10.7%) to $6,315,427 during the Current First Half from $6,384,822 in the Comparable First Half.

A summary of the components of restaurant expenses are:

Description	Current Quarter	Comparable Quarter
Cost of Sales	25.77%	25.06%
Restaurant Labor and Benefits	36.30	38.30
Other Operating Expenses	16.72	15.26
Occupancy Costs	11.59	11.32
Total Restaurant Expenses	90.38%	89.93%

Operations Supervision Expenses declined $40,391 (33.6%) to $79,807 in the Current Quarter compared to $120,198 in the Comparable Quarter. The decrease is primarily the result of a reduction in supervisory personnel.

Operations Supervision Expenses declined $86,792 (30%) to $202,881 in the Current First Half compared to $289,673 in the Comparable First Half. The decrease is primarily a reduction in the labor and benefit costs of supervisory personnel.

Corporate Expenses declined $58,412 (24%) to $185,028 in the Current Quarter compared to $243,440 in the Comparable Quarter. The decrease is attributed to a reduction in personnel and decreased expenses related to the settlement of a lawsuit incurred in the Comparable Quarter.

Corporate Expenses declined $60,386 (11.9%) to $448,350 in the Current First Half compared to $508,736 in the Comparable First Half. The reduction is primarily attributed to personnel reductions and decreased expenses associated with the lawsuit discussed above.

Interest Expenses decreased $20,939 (12.5%) to $146,927 in the Current Quarter compared to $167,866 in the Comparable Quarter. Interest Expense decreased $59,208 (15.6%) to $320,194 in the Current First Half compared to $379,402 in the Comparable First Half. This decrease reflects reduced interest expense associated with the Company's major lender based on declining interest per the amortization schedules.

LIQUIDITY AND CAPITAL RESOURCES

During the Current First Half, the Company's operating activities provided $86,685 in cash, versus cash used of $116,842 during the Comparable First Half. During the Comparable First Half, the Company, pursuant to a forbearance agreement, remitted $240,000 to its commercial lender.

Net cash used by investing activities was $85,940 in the Current First Half compared to cash used of $95,947 during the Comparable First Half for purchases of property and equipment. Such purchases occurred throughout several of the Company's restaurants and related to normal replacements and leasehold improvements.

Net cash used by financing activities was $20,404 during the Current First Half compared to cash provided of $232,889 during the Comparable First Half. During the Comparable First Half, the Company signed a line of credit agreement with Jacksonville Restaurant Acquisition Corp. ("JRAC") for a maximum of five million dollars. $270,000 was drawn down from the line during the Comparable Quarter. Payments on long term debt was $20,404 during the Current First Half and $37,111 during the Comparable First Half.

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 $204,501 for Current First Half compared to $124,193 during the Comparable First Half.

	EBITDA	
	Twenty Eight Weeks Ended	
	Jan. 13, 2002	Jan. 14, 2001

Net Loss	$(334,031)	$(492,630)
Add:		
Depreciation and amortization of property and equipment	218,338	237,421
Interest	320,194	379,402
EBITDA	$204,501	$124,193

The Company has been in default under its credit facility with AMRESCO, its principal commercial lender, since October 17, 1999. In May 1999, the Company and AMRESCO 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 AMRESCO that under the terms of the credit facility, the entire principal amount outstanding, $3,105,031, was immediately due, and AMRESCO could take possession of the assets pledged as collateral. On September 29, 2000, AMRESCO agreed pursuant to a forbearance agreement, to not exercise its right to the collateral until October 31, 2000. Since October 31, 2000, AMRESCO 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 payments beginning in October 2001 and continuing through February 2002.

On February 15, 2002, Earth Petroleum (Earth), an affiliate of JRAC, entered into an agreement with AMRESCO to purchase for $2,927,500 from AMRESCO the debt owed by the Company (the "AMRESCO Debt"). The purchase price of the AMRESCO Debt is to be paid as follows: $40,000 due and paid on February 15, 2002, $25,000 due and paid on February 26, 2002, $500,000 due March 8, 2002, and the remainder on March 22, 2002. If Earth does not make the payments due March 8 or March 22, 2002, it may extend the final payment date for the balance of the purchase price through April 30, 2002 for an additional payment of $50,000. Earth may prepay at any time without penalty. In the event Earth does not complete purchase of the debt from AMRESCO, amounts paid will not be credited against the debt. Further, in the event Earth does not complete purchase of the debt from AMRESCO, the Company will be expected to surrender to a receiver to be selected by AMRESCO all the Company's assets that serve as collateral for the AMRESCO Debt. Such assets constitute all or substantially all of the assets of the Company. The receiver would then be expected to sell those assets to the highest bidder in a commercially reasonably manner. In the event of such a sale, Cucos and Earth would have the right of first refusal to match the highest bidder prior to closing of such a sale, provided that Cucos or Earth would remit payment in a lump sum of cash.

There can be no assurance that Earth will be able to complete its obligations under the February 15, 2002 agreement with AMRESCO.

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.

CUCOS INC.

(Registrant)

Date: February 26, 2002

By: /s/ James W. Osborn

James W. Osborn, President and

Chief Executive Officer