ATOMIC BURRITO INC
Form 10QSB
November 19, 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 September 30, 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 73118
(Address of principal executive offices) (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 November 14, 2001 5,357,121

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
September 30, 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
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
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	September 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash	$ 49,102	$ 78,925
Accrued interest receivable	43,615	1,918
Accounts receivable - other	23,993	9,514
Current portion of notes receivable	27,036	37,266
Current portion of minimum lease payments receivable	9,746	-
Inventories	41,375	61,815
Prepaid expenses	25,390	64,169
Deferred income taxes	-	100,000
Total current assets	220,257	353,607
PROPERTY AND EQUIPMENT	2,108,070	2,900,795
Accumulated depreciation	(1,467,510)	(1,901,884)
	640,560	998,911
OTHER ASSETS:		
Notes receivable from affiliate	574,801	630,000
Notes receivable, net of current portion shown above, net of reserve of $450,000 and $350,000 at September 30, 2001 and December 31, 2000	299,322	367,734
Long term portion of minimum lease payments receivable	108,673	-
Goodwill, net of accumulated amortization of $13,456 at December 31, 2000	-	80,734
Covenant not to compete, net of accumulated amortization of $23,333 and $13,333 at September 30, 2001 and December 31, 2000	31,667	46,667
Deposits and other	62,938	62,938
Investments	57,400	177,400
	1,134,801	1,365,473
	$ 1,995,618	$ 2,717,991

See accompanying notes to financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
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	September 30, 2001 (Unaudited)	December 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 502,078	$ 573,067
Accrued liabilities	159,124	196,010
Note payable - related party	-	28,005
Current portion of long-term debt	239,937	798,290
Current portion of capital leases	43,491	45,692
Total current liabilities	944,630	1,641,064
LONG-TERM DEBT, net of current portion shown above	507,494	366,612
OBLIGATION UNDER CAPITAL LEASE, net of current portion shown above	126,535	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 September 30, 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 September 30, 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 September 30, 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 September 30, 2001 and December 31, 2000	-	-
Common stock, $.001 par value, 25,000,000		

shares authorized; 5,357,121 and 4,915,621 shares issued and outstanding as of September 30, 2001 and December 31, 2000, respectively	5,357	4,916
Additional paid-in capital	5,169,879	5,106,595
Accumulated deficit	(5,223,239)	(5,012,806)
Total stockholders' equity	411,997	558,705
	$ 1,995,618	$ 2,717,991

See accompanying notes to financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES:				
Beverage and food sales	$ 409,256	$ 744,057	$ 1,797,795	2,561,016
Admission fees	57,320	169,626	244,772	685,915
Gain on sale of assets	-	-	675,234	-
Other income	71,326	169,783	232,378	351,160
	537,902	1,083,466	2,950,179	3,598,091
COSTS AND EXPENSES:				
Cost of products and services	564,710	936,498	2,257,697	3,077,791
General and administrative expense	83,885	175,679	332,571	485,908
Depreciation and amortization	54,382	98,702	187,938	237,136
Interest expense	11,440	26,515	85,914	91,238
	714,417	1,237,394	2,864,120	3,892,073
INCOME (LOSS) BEFORE INCOME TAXES	(176,515)	(153,928)	86,059	(293,982)
PROVISION (BENEFIT) FOR INCOME TAXES	-	(56,953)	(100,000)	(108,773)
CHANGE IN VALUATION				

ALLOWANCE	-	56,953	-	108,773
NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS	(176,515)	(153,928)	(13,941)	(293,982)
LOSS ON DISCONTINUED OPERATIONS	(64,300)	(514,872)	(196,492)	(766,402)
NET INCOME (LOSS) BEFORE DIVIDEND	(240,815)	(668,800)	(210,433)	(1,060,384)
PREFERRED STOCK DIVIDENDS	-	(15,500)	-	(15,500)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	(240,815)	(684,300)	(210,433)	(1,075,884)
OTHER COMPREHENSIVE LOSS: Unrealized losses on securities	-	(50,000)	-	(50,000)
COMPREHENSIVE INCOME (LOSS)	$ (240,815)	$ (734,300)	$ (210,433)	$1,125,884)
BASIC EARNINGS PER SHARE	$ (0.04)	$ (0.15)	$ (0.04)	$ (0.24)
DILUTED EARNINGS PER SHARE	N/A	N/A	N/A	N/A
AVERAGE COMMON AND COMMON EQUIVALENT: BASIC SHARES	5,357,121	4,482,003	5,142,414	4,425,987

See accompanying notes to financial statements.

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ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2000

	Series A 10% Convertible Preferred Stock Value of Shares	Series B 10% Convertible Preferred Stock Value of Shares	Series C 10% Convertible Preferred Stock Value of Shares	Series D 10% Convertible Preferred Stock Value of Shares	Common Stock 0.001 par Value (1)	Addit Paid Capit
Balance, December						

31, 1999	$ 400,000	$ -	$ -	$ -	$ 4,236	$4,7
Exercise of stock options	-	-	-	-	170	1
Preferred Stock issued	-	-	60,000	-	-	
Common stock issued to purchase interest in Boots, Inc.	-	-	-	-	200	1
Common stock issued for cash	-	-	-	-	310	
Net loss for the twelve months ended December 31, 2000	-	-	-	-	-	
Balance, December 31, 2000	400,000	-	60,000	-	4,916	5,1
Share adjustment on Boots, Inc. acquisition	-	-	-	-	100	
Issuance of stock for services rendered	-	-	-	-	91	
Common stock issued in conversion of Rockwell, LLC note payable to equity	-	-	-	-	250	
Net income for the nine months ended September 30, 2001	-	-	-	-	-	
Balance, September 30, 2001	$ 400,000	$ -	$ 60,000	$ -	$ 5,357	$5,1

See accompanying notes to financial statements.

ATOMIC BURRITO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
Page 1 of 2

	2001 (Unaudited)	2000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) before discontinued operations	$ (13,941)	$ (309,482)
Net income (loss) from discontinued operations	(196,492)	(766,402)
Adjustments to reconcile net loss to net cash used in operating activities -		
Depreciation and amortization	187,938	374,934
Impairment write down	-	208,329
Gain on sale of assets	(675,234)	-
Bad debt provision	100,000	-
Deferred income tax expense (benefit)	100,000	-
Other	(7,608)	-
Minority interests in earnings of subsidiaries	-	-
Changes in assets (increase) decrease	-	-
Accounts and minimum lease payments receivable	(21,007)	66,664
Due from related parties	(14,479)	117,683
Inventories	20,440	18,441
Prepaid expenses	52,504	5,878
Deposits and other assets	-	119,293
Changes in liabilities increase (decrease) -		
Accounts payable	(70,989)	36,111
Accrued expenses	(36,886)	22,201
Dividends payable	-	15,500
Net cash (used in) operating activities	(575,754)	(90,850)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of property and equipment-net of expenses	1,098,965	-
Sale of investments	-	25,000
Collections of notes receivable	13,080	-
Loan advances	(33,645)	-
Acquisition of property and equipment	(75,259)	(431,827)
Net cash provided by (used in) investing activities	1,003,141	(406,827)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Minority interest investments in LLC's	-	(79,694)
Sale of common stock	-	152,424
Sale of preferred stock	-	60,000
Borrowings under notes payable and capital leases	40,007	260,396
Repayments of notes payable and capital leases	(497,217)	(45,971)

Net cash provided by financing activities	(457,210)	347,155
NET (DECREASE) INCREASE IN CASH	(29,823)	(150,522)
CASH, BEGINNING OF PERIOD	78,925	172,622
CASH, END OF PERIOD	$ 49,102	$ 22,100

See accompanying notes to financial statements.

ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
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2001 (Unaudited)	2000 (Unaudited)

	2001 (Unaudited)	2000 (Unaudited)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 71,638	$ 91,238

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.

During June 2001, the Company issued 250,000 shares of common stock in conversion of a $50,000 note payable to equity.

During May 2001, the Company leased the furniture and equipment from its Houston location to a third party. This transaction was treated as a capital lease for financial reporting purposes with no gain or loss recognized. The Company's $120,000 basis in this equipment was reclassified as minimum lease payments receivable.

See accompanying notes to financial statements.

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 September 30, 2001 and the results of its operations and cash flows for the three and nine months ended September 30, 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 and nine months ended September 30, 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 - MINIMUM LEASE PAYMENTS RECEIVABLE

On May 15, 2001, the Company entered into a lease agreement with AB of Tulsa-II, LLC (Lessee) to sell the furniture equipment and signage previously used by the Company in the discontinued operations of the Houston, TX, Atomic Burrito restaurant. The lease agreement provides for a monthly payment of $1,250 through June, 2011 and requires the Lessee to pay any and all property taxes and to provide insurance on the property throughout the term of the lease. At the end of the lease, the Lessee has the option to purchase the property at current market value.

Net investment in sales-type lease as of September 30, 2001, is as follows:

Minimum future lease payments	
Current portion	$ 9,746
Long-term portion	108,673

	118,419
Unearned interest income	29,081

	$ 147,500
	=========

Minimum future lease payments receivable include the following:

2001	$ 4,006
2002	9,934
2003	10,402
2004	10,892

2005	11,404
Thereafter	71,781
	$ 118,419

Note 3- NOTES RECEIVABLE

The Company had the following notes receivable at September 30, 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
9% note receivable due from a corporation, due October 2005	33,646
8% note receivable due from an individual, payable in monthly installments of $3,536, including interest, due September 2007	357,712
	776,358

Less: Reserve for doubtful collectibility	(450,000)
Total, net of reserve for collectibility	326,358
Less: Current portion	(27,036)
Long-term portion	$ 299,322

Note 4 - NOTES RECEIVABLE FROM AFFILIATES

The Company had the following notes receivable due from affiliates as of September 30, 2001:

6% note receivable due from a corporation in March 2001	$ 44,801
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	$ 574,801

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. Through a plan approved by the Board of Directors, the Company offset a note payable of $35,000 and Other accounts payable of $20,199 against notes receivable from the affiliate during the second quarter of 2001. This plan also includes an agreement to pay at least 5% of the principle balance on the $480,000 receivable note annually beginning in 2002 until maturity.

Note 5 - PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2001, include the following:

Leasehold and other improvements	$1,499,214
Restaurant and club equipment	336,855
Furniture and fixtures	206,623
Signage	65,378
	2,108,070
Less accumulated depreciation	(1,467,510)
Total property and equipment	$ 640,560

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Note 6 - 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 June 30, 2001, $32,146 had been advanced on the 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 $177,000 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 also 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. As of September 30, 2001, no payments have been made on this note. The Company has provided a $273,000 reserve to cover future possible losses, which could arise from disputes resulting in adjustments in amounts paid on the note receivable.

The Houston and Oklahoma City locations ceased operations and the equipment at the Houston location was written down to $120,000. The Company in May 2001 entered into a lease agreement with Three B's to purchase the equipment from the Houston location, which is being used in a new restaurant location recently opened in Tulsa. Property and equipment from the Oklahoma City location valued at approximately $146,000 by the Company, has been moved to a storage facility in Tulsa. According to Company management, Three B's has agreed to lease the equipment for use in a third restaurant location in Tulsa currently in development. All leasehold improvements at the Oklahoma City location reverted to the landlord of the property under mutual agreement to cancel the remaining term of the lease.

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Note 7 - SALE OF WICHITA CLUB

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 included the equipment and improvements, the lease, permits and licenses at this location, together with certain other assets at this location. The Company closed on this sale on April 11, 2001, realizing a gain of approximately $675,000 in connection with this transaction.

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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 "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations", and "Part II, Item 1. Legal Proceedings" 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 Atomic Burrito, 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.

General

The Company owns and operates a western nightclub located in St Louis, Missouri. During April, 2001 the Company sold its western nightclub located 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 September, 1999, the Company opened an Atomic Burrito restaurant in Houston, Texas in which it owned a 50% interest.

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

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

In September 2000, the Company sold the property, equipment, and leasehold improvements in 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 2000, 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.

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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 loss on discontinued operations for financial reporting purposes. At June 30, 2001, the Company added an additional $50,000 to this allowance for bad debts.

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. During May 2001 the Company entered into a lease agreement to lease the furniture and fixtures from the location to a third party. Terms for the lease call for lease payments of $1,250 per month over the 10 year term of the lease.

In September, 2000, the Company closed its Oklahoma City Atomic Burrito location and is currently seeking a buyer to take over this location and assume the lease. As of June 30, 2000, the Company has reduced the carrying value of these assets by $200,000 to reflect the anticipated loss on ultimate disposition. As of June 30, 2001, the Company has placed the furniture and fixtures from this location in storage and returned the property to the landlord. Management believes it will be able to recover its remaining basis of $146,421 in this equipment by either selling or leasing this equipment to third parties.

Liquidity and Capital Resources

As of September 30, 2001, the Company had cash of $49,102. This amount represented a decrease of $29,823 or 38% from cash at December 31, 2000. The decrease in cash from year-end reflects proceeds from the sale of the Wichita nightclub offset in part by a $575,665 reduction in liabilities and current operating losses from operating activities of $13,941 and the loss from discontinued operations of $196,492.

As of September 30, 2001, the Company's working capital position (current assets minus current liabilities) was a negative $(724,373) compared to a negative $(1,287,457) at December 31, 2000. The increase in working capital of $563,084 was due primarily to a $445,476 reduction in notes payable combined with a $107,875 reduction in accounts payable and accrued liabilities. This significant improvement in the Company's working capital position is a result of the sale of the Wichita nightclub.

Property and equipment is made up primarily of assets required to operate the St. Louis nightclub and certain restaurant equipment which the Company is either leasing or attempting to dispose of. Property and equipment decreased by $792,725 during the nine months ended September 30, 2001. This decrease was due primarily to the sale of the Wichita nightclub.

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The deferred income tax asset of $100,000 reflected on the books at December 31, 2000 was utilized for financial reporting purposes during the nine months ended September 30, 2001 to offset the tax liability associated with the gain on the sale of the Wichita nightclub. At September 30, 2001 the Company had approximately $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 $675,234 and provided cash $1,032,250 to pay down existing debts and to finance future expansions of the night club operations.

During the nine months ended September 30, 2001, notes receivable from an affiliated Company were reduced by $55,199, leaving notes outstanding at September 30, 2001 to this affiliate in the amount of $574,801. No interest has been received or accrued on these notes, as the affiliate has waived its rights to receive preferred stock dividends.

During the nine months ended September 30, 2001, notes payable totaling $50,000 were converted to 250,000 shares of the Company's common stock.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2001 and 2000

During the quarter ended September 30, 2001 the Company experienced a net loss of $(240,815) as compared to a loss of $(668,800) for the quarter ended September 30, 2000. The following analysis explains this change:

Food and Beverage Sales - During the three months ended September 30, 2001, food and beverage sales decreased by 45% or $334,801 from $744,057 during 2000 to $409,256 during 2001. This decrease is due primarily to the sale of the Wichita nightclub on April 10, 2001.

Admissions Fees - During the three months ended September 30, 2001, admission fees decreased by 66% or $112,306 from $169,626 in 2000 to $57,320 in 2001. This decrease was due in part to the sale of the Wichita nightclub on April 10, 2001 and in part to the Company's policy of giving admissions fees to live entertainment in lieu of paying booking fees to these entertainers.

Other Income - Other income decreased by 58% or $98,457 from $169,783 during the quarter ended September 30, 2000 to $71,326 during the quarter ended September 30, 2001. This decrease was due primarily to the sale of the Wichita nightclub.

Cost of Products and Services - Cost of products and services decreased by 40% or $371,788 from $936,498 in the quarter ended September 30, 2000 to $564,710 during the quarter ended September 30, 2001. This decrease was due primarily to the sale of the Wichita nightclub.

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General and Administrative Expenses - General and administrative expenses decreased by 52% or $91,794 from $175,679 in the quarter ended September 30, 2000 to $83,885 during the quarter ended September 30, 2001. This decrease is attributable to management's efforts to reduce administrative salaries and other administrative costs as operating activities have been reduced.

Depreciation Expense - Depreciation expense decreased by 45% or $44,320 from $98,702 during the quarter ended September 30, 2000 to $54,382 during the quarter ended September 30, 2001. This decrease results primarily from the sale of the Wichita nightclub.

Interest Expense - Interest expense decreased by 57% or $15,075 from $26,515 during the quarter ended September 30, 2000 to $11,440 during the quarter ended September 30, 2001. This decrease is due primarily to reductions in debt occurring subsequent to the sale of the Wichita nightclub.

Loss From Discontinued Operations - Losses from discontinued operations totaled $64,300 for the quarter ended September 30, 2001 as compared to losses of

$514,872 for the comparable period in 2000. During 2000 this loss represents the net loss incurred by Atomic Burrito restaurants which were being operated at that time. The loss for the quarter ended September 30, 2001 includes an additional $50,000 provision for bad debts associated with the notes receivable received in consideration for the sale of certain restaurant operations along with certain expenses incurred on the Oklahoma City and Norman locations.

Comparison of the Nine Months Ended September 30, 2001 and 2000.

During the nine months ended September 30, 2001 the Company experienced a net loss of $(210,433) as compared to a net loss of $(1,060,384) for the nine months ended September 30, 2000. The following analysis explains this change:

Food and Beverage Sales - During the nine months ended September 30, 2001, food and beverage sales decreased by 30% or $763,221 from $2,561,016 during 2000 to $1,797,795 during 2001. This decrease is due primarily to the sale of the Wichita nightclub on April 10, 2001.

Admissions Fees - During the nine months ended September 30, 2001, admission fees decrease by 64% or $441,143 from $685,915 in 2000 to $244,772 in 2001. This decrease was due in part to the sale of the Wichita nightclub on April 10, 2001 and in part to the Company's policy of giving admissions fees to live entertainment in lieu of paying booking fees to these entertainers.

Gain on Sale of Assets - During the nine months ended September 30, 2001, the Company recognized a $675,234 gain on the sale of the Wichita nightclub.

Other Income - Other income decreased by 34% or $118,782 from $351,160 during the nine months ended September 30, 2000 to $232,378 during the nine months ended September 30, 2001. This decrease was due primarily to the sale of the Wichita nightclub.

Cost of Products and Services - Cost of products and services decreased by 27% or $820,194 from $3,077,791 in the nine months ended September 30, 2000 to $2,257,697 during the nine months ended September 30, 2001. This decrease was due primarily to the sale of the Wichita nightclub.

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General and Administrative Expenses - General and administrative expenses decreased by 32% or $153,337 from $485,908 for the nine months ended September 30, 2000 to $332,571 for the nine months ended September 30, 2001. This decrease is attributable to management's efforts to reduce administrative salaries and other administrative costs as operating activities have been reduced.

Depreciation Expense - Depreciation expense decreased by 21% or $49,198 from $237,136 during the nine months ended September 30, 2000 to $187,938 during the nine months ended September 30, 2001. This decrease results primarily from the sale of the Wichita nightclub.

Interest Expense - Interest expense decreased by 6% or $5,324 from $91,238 during the nine months ended September 30, 2000 to $85,914 during the nine months ended September 30, 2001.

Income Tax Expense - During the nine months ended September 30, 2001 the Company recognized $100,000 in income tax expense reflecting the utilization of its deferred tax asset in the amount of $100,000 to offset gains associated with the sale of the Wichita nightclub.

Loss From Discontinued Operations - Losses from discontinued operations totaled

$196,492 for nine months ended September 30, 2001 as compared to losses of $766,402 for the comparable period in 2000. During 2000 this loss represents the net loss incurred by Atomic Burrito restaurants which were being operated at that time. The loss for the nine months ended September 30, 2001 includes an additional $100,000 provision for bad debts associated with certain notes receivable received in consideration for the sale of certain restaurant operations along with certain expenses incurred on the Oklahoma City and Norman locations.

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.

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

During the third 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:
None

(b) Reports on Form 8-K
No reports 8-K were filed during the quarter ended September 30, 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.

November 19, 2001

Atomic Burrito, Inc.

By:/s/Don W. Grimmett

Don W. Grimmett, President