

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

ATOMIC BURRITO INC
Form 10-K
April 16, 2001

FORM 10-KSB
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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

For Fiscal Year Ended December 31, 2000

Commission File Number: 0-24058

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

Oklahoma
(State or other jurisdiction of
incorporation or organization)

73-1571194
(IRS Employer Identification No.)

1601 N.W. Expressway, Suite 1910
Oklahoma City, Oklahoma 73118
(Address of principal executive offices) (Zip Code)

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

Securities to be registered under Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.001 par value

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 []

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

Revenues of registrant for year ended December 31, 2000: \$4,711,932

Aggregate market value of voting stock held by
non-affiliates as of April 11, 2001 \$ 412,500

Shares of Common Stock, \$.001 par value, outstanding
as of April 11, 2001: 5,053,121

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive proxy statement in connection with the Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

ATOMIC BURRITO, INC.

2000 Form 10-KSB Annual Report

Table of Contents

Item

Part I

Special Note Regarding Forward Looking Statements

1. Description of Business
2. Description of Properties
3. Legal Proceedings
4. Submission of Matters to a Vote of Security Holders

Part II

5. Market for Common Equity and Related Stockholder Matters
6. Management's Discussion and Analysis
7. Financial Statements and Supplementary Data
8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Part III

9. Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16(a) of the Exchange Act
10. Executive Compensation
11. Security Ownership of Certain Beneficial Owners and Management
12. Certain Relationships and Related Transactions
13. Exhibits and Reports on Form 8-K

Signatures

PART I

Special Note Regarding Forward-Looking Statements

Certain statements in this Form 10-KSB 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

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

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; the development of the "Atomic Burrito" concept; 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-KSB. The use in this Form 10-KSB 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.

Item 1. Description of Business

General

Atomic Burrito, Inc. (the "Company") was organized under the laws of the State of Colorado in December 1989, but had no operations until April 1993. The Company completed its initial public offering in May 1994, from which it received net proceeds of approximately \$1.9 million from the sale of 460,000 shares of Common Stock. In late 1996, a change of control took place, which resulted in the replacement of senior management and changes in the Company's operating and growth strategies. The Company's prior strategies focused heavily on cost reduction as the preferred means of improving profitability. Such strategies resulted in lean Club-level management and loss of experienced personnel, low levels of physical facility maintenance and reinvestment, and reduced levels of advertising, promotion and entertainment expense. Current management has replaced much of the Club-level management with more experienced personnel, instituted management training procedures, implemented a cost management system which includes daily unit-level accounting and reporting, improved the sound, light and video systems, increased radio buys within the local markets, and implemented new advertising and in-store promotions. These changes reflect current management's belief that long-term strategies involving greater investment in personnel and physical facilities will produce a superior financial performance. See Item 6."Management's Discussion and Analysis."

During 1998, after months of searching for a viable restaurant concept to acquire or merge with, the Company developed its own restaurant concept "Atomic Burrito", a quick service "Fresh-Mex" concept featuring a Mexican menu emphasizing fresh ingredients and made-to-order burritos. Utilizing senior management's extensive background in the Mexican segment of the restaurant industry, the Company formed a wholly owned subsidiary corporation, "Atomic Burrito, Inc.", now "Atomic Development, Inc.", and developed a prototype for the concept, including menus, recipes, design, layout, equipment, and other items such as signage, logos, and an operations manual of operating procedures. The Company then entered into License Agreements with an experienced food services operator who opened two "Atomic Burrito" restaurants in 1998, and with another operator who opened a restaurant in Longview, Washington. In December of 1998, the Company entered into a joint venture agreement with a publicly owned company, New York Bagel Enterprises, Inc. ("New York Bagel") for the joint development of additional "Atomic Burrito" restaurants. Pursuant to this agreement, two "Atomic Burrito" restaurants were opened in 1999 in Tulsa,

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Oklahoma and in Wichita, Kansas. Later, in September, 1999, the Company and New York Bagel agreed to dissolve the joint venture agreement for additional restaurants, and New York Bagel gave the Company the option of buying the interest of New York Bagel in the two restaurants, which has not yet occurred. Also in 1999, the Company opened a "Atomic Burrito" restaurant in Houston, Texas, in partnership with a former employee, and effective December 31, 1999, the Company bought the Norman, Oklahoma restaurant from its Licensee. Subsequent to year-end 1999, the Company opened a wholly owned restaurant in Oklahoma City, Oklahoma. See additional discussion in Item I, "Atomic Burrito Restaurants."

In April of 2000, because of the poor performance of the Atomic Burrito restaurants and the cash drain on the Company, the Board of Directors began to evaluate the restaurant concept and the Company's ability to continue its development. In May of 2000, James E. Blacketer, President and Chief Executive Officer of the Company, resigned to pursue other business interests. Then in late August, due to declining performance at the Atomic Burrito restaurants and to the Company's inability to raise capital to continue the restaurant operations, the Board of Directors decided to discontinue expansion of the concept, close the unprofitable restaurants and sell the remaining restaurants and assets. Subsequently, in September of 2000, the Company sold the Norman restaurant to a company whose principal had previously worked for the Company, and in November sold the Company's interest in the Tulsa and Wichita restaurants to a company controlled by Mr. Blacketer, the former President and Chief Executive Officer of the Company, and also sold a subsidiary of the Company, Atomic Development Corporation, to Mr. Blacketer's company. In each of these transactions, the Company financed the transaction. The Company continues to attempt to sell the assets of the Houston and Oklahoma City restaurants.

In August, 1999, shareholders of the Company approved a change of name from Western Country Clubs, Inc. to Atomic Burrito, Inc., and the Company reincorporated in the State of Oklahoma.

The Company

During 2000, the Company operated two "country-western" theme nightclubs located in St. Louis, Missouri (the "St. Louis Club") and Wichita, Kansas, (the "Wichita Club"). Each Club combines live entertainment, dancing, bar and food in a country-western atmosphere. The Wichita Club has operated as In Cahoots since its inception in 1994, and the St. Louis Club was changed to an In Cahoots in 1996, having previously operated as A Little Bit of Texas. The Company acquired its interest in the Wichita Club, an 80% general partnership interest, in December 1996 from a corporation affiliated with James E. Blacketer and Joe R. Love, Directors of the Company. See Item 6. "Management's Discussion and Analysis."

In March of 2001, Incahoots Limited Partnership, a Kansas limited partnership, which is owned by the Company's wholly-owned subsidiary, Entertainment Wichita, Inc., entered into a contract to sell its furniture, fixture and equipment at its Wichita Club. The Company's reasons for agreeing to sell the Wichita Club included the poor performance of the Wichita Club during the past year, increased competition in the Wichita market, the death of a customer in an incident at the club in May of 2000, and the small size of the Wichita market compared to the St. Louis Club's market size. The Wichita Club was losing money and unable to continue its operations on a profitable basis, and unable to pay its creditors. On April 12, 2001, the transaction was completed with a gross sales price of \$1.2 million with the partnership netting approximately \$875,000. The Company intends to use the proceeds to satisfy existing debts and to reduce its bank borrowings.

The St. Louis Club

The St. Louis Club is located on the I-70 corridor between St. Louis,

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Missouri and Kansas City, Kansas. The Club occupies roughly one-half of a building which previously housed a Sam's Club wholesale warehouse operation and is in excess of 56,000 square feet making it the largest nightclub in Missouri. This mammoth nightclub operates under the name In Cahoots and features a design with the look and feel of an authentic rustic western town. The Club, with a capacity of almost 3,000, houses a huge dance floor, performance stage, a billiards and video arcade area and several retail stores including Sundance Silver & Hide, which sells wardrobe items, including hats and boots, and the Homestead Store which sells Indian artifacts, clothing and jewelry. Sundance Silver & Hide occupies approximately 800 square feet of the Club, for which it pays \$1,200 per month pursuant to an oral agreement with the Company. The Homestead Store occupies approximately 600 square feet of the Club, for which it pays \$300 plus 10% of sales per month pursuant to an oral agreement with the Company. The Club also features a walk-up restaurant selling various food items in addition to its extensive drink offerings. The St. Louis Club featured numerous nationally known entertainers during the past year, including such performers as Tracy Lawrence, Lone Star, Chris LeDoux and Willie Nelson.

The St. Louis Club opened for business as a non-alcoholic club on April 22, 1994. It began marketing alcoholic beverages on May 19, 1994 upon receipt of a liquor license from the Supervisor of Liquor Control of the State of Missouri. The customer's average expenditure, exclusive of food and souvenirs, is approximately \$11.

The Wichita Club

The Wichita Club opened in February 1994, and has been voted the top country-western club in Wichita since opening. It consists of approximately 30,000 square feet and has parking for 900 cars. The Wichita Club is designed to appeal to rodeo cowboys as well as the casual country western music lover. It blends high tech, state-of-the-art, and "good old country boy" entertainment. The high tech presentation includes giant 20 foot video screens, double CD players, a roll up lighted American flag, neon lighting and the capability to include a live band's sound throughout the house speaker system. A comfortable ambiance is achieved through rustic wooden floors, old west photographs, antique back bars, and a huge, hand-painted mural of past and present Country and Western entertainers. The showcase of the Club is the circular, race track style dance floor, complete with a bar in the center allowing for more dancing room.

The Company acquired its interest in the Wichita Club on December 16, 1996, when it acquired Entertainment Wichita, Inc. ("EWI"), the general partner and 80% owner of In Cahoots, Limited Partnership, a Kansas limited partnership. In exchange for the 80% interest, the Company issued 400,000 shares of its Common Stock and assumed \$150,000 in debt through a merger transaction. EWI was owned 45.5% by Shane Investments, L.C. ("Shane Investments"), a corporation which is solely owned and controlled by Joe Robert Love, Jr., the adult son of Joe R. Love, a Director of the Company. Shane Investments received 250,500 shares of the Company's Common Stock upon completion of the transaction in December 1996.

On April 12, 2001, the Wichita Club's furniture, fixtures and equipment was sold to a group of investors located in Wichita, Kansas. The Company's reasons for selling these assets included the poor performance and losses at the Wichita Club during the past year, as well as, declining performance during past years, increased competition in the Wichita market, the death of a customer in an incident at the club in May of 2000, and the small size of the Wichita market compared to the St. Louis Club's market size.

Atomic Burrito Restaurants

During late 1997 and the first half of 1998, the Company conducted an extensive search for a viable restaurant concept to acquire and/or merge with. Management's belief was that expansion of a restaurant concept had many

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

advantages to the Company compared to expansion of its nightclub business. Under the guidance and direction of Company President and Chief Executive Officer, James E. Blacketer, and Vice-President of Operations, Dominic W. Grimmett, the Company decided to develop its own restaurant concept during the summer of 1998. Blacketer and Grimmett had extensive backgrounds in the Mexican segment of the restaurant industry and they developed a "Fresh-Mex" burrito concept, which features fresh ingredients and made-to-order burritos. The menu contains a variety of Mexican items with the burrito being the featured entre, and with a focus on lunch and dinner business. While the concept emphasizes a family atmosphere, alcoholic beverages will be an option depending on the particular location.

The Company formed a wholly-owned subsidiary, "Atomic Burrito, Inc.", now Atomic Development Corporation, an Oklahoma corporation, in the summer of 1998, for development of its new restaurant concept. Because of its limited financial resources, the Company opted to develop its prototype restaurants through a "license agreement" whereby an experienced restaurant operator would own and operate the restaurant, using the "Atomic Burrito" name, menu, recipes, logo, layout and design, and utilizing the "Atomic Burrito" operations manual developed by the Company. In return, the licensee would pay the Company's subsidiary (licensor) an initial license fee and an ongoing royalty fee.

The prototype restaurants, as developed by the Company, are planned to be located in leased premises of approximately 3,500 square feet. Remodeling, construction and equipment costs are estimated at \$300,000 to \$350,000, though it may be possible to convert an existing restaurant location for less. The restaurants are expected to be open from 11:00 a.m. until 10:00 p.m., and will serve a variety of Mexican menu items, centered around the burrito. The food will be prepared on a serving line, made-to-order as the customer progresses along the line. Some units may offer alcoholic beverages in addition to soft drinks.

The first two "Atomic Burrito" restaurants were opened in Stillwater and Norman, Oklahoma in the fall of 1998 under license agreements. Subsequent to fiscal year end 1998, the Company entered into an additional license agreement of an "Atomic Burrito" restaurant to be opened in Longview, Washington. In addition, in October of 1998, the Company entered into a joint venture agreement with New York Bagel Enterprises, Inc. ("New York Bagel"), for the joint development of up to eight "Atomic Burrito" restaurants. Under the agreement, New York Bagel was to contribute the leased premises, the lease, leasehold improvements and equipment in certain existing New York Bagel restaurants and the Company was to contribute up to \$150,000 per restaurant to pay for conversion costs and additional equipment. According to the agreement, the Company would own a 60% interest in the restaurant and New York Bagel would own a 40% interest in the restaurant. The agreement also provides for the development of additional "Atomic Burrito" restaurants over an 18-month period. The first joint venture restaurant under the agreement opened in March 1999 in Tulsa, Oklahoma, with a second restaurant scheduled to open in April 1999 in Wichita, Kansas. In September, 1999, the Company and New York Bagel agreed to terminate any future development under the joint venture agreement, and New York Bagel gave the Company an option to purchase New York Bagel's interest in the Tulsa and Wichita units, which the Company has not yet done. New York Bagel's stated reasons for terminating the joint venture agreement was the lack of expansion capital on the part of either party to the agreement and their desire to pursue a different future direction. Subsequently, New York Bagel filed for Chapter 11 protection under the Federal Bankruptcy statutes.

During 1999, the Company entered into an agreement with a former employee for the joint development, on a 50%-50% basis, of an "Atomic Burrito" restaurant in Houston, Texas. This restaurant subsequently opened in September, 1999.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

In December 1999, the Company entered into discussions with the licensee which owned the Norman, Oklahoma, "Atomic Burrito" restaurant, regarding the possible purchase of the unit by the Company. The licensee's owners, successful restaurant operators in both Oklahoma and Texas, had previously closed their Stillwater, Oklahoma "Atomic Burrito" restaurant and were in the middle of an expansion of their other restaurant and brew pub operations, which were unrelated to the Company. The licensee approached the Company with the idea of selling the restaurant to the Company in exchange for common stock in the Company. Subsequently, an agreement was reached, effective December 31, 1999, whereby the Company purchased the assets of the licensee and assumed certain liabilities. As part of that transaction, the Company agreed to issue 360,000 shares of the Company's restricted common stock, to the licensee and its owners. The parties valued the transaction, after assumption of certain liabilities, at \$270,000.00. Thus at the end of 1999, the Company owned and operated restaurants in Tulsa, Wichita, Houston, and Norman, with a licensed unit in Longview, Washington, and subsequent to year end opened an additional restaurant in Oklahoma City which is wholly-owned by the Company.

In March of 2000, the Company opened an Atomic Burrito restaurant in Oklahoma City, Oklahoma. In April 2000, the Board of Directors became concerned about the overall poor performance of the Atomic Burrito restaurants, and began an evaluation of the Company's ability to continue such operations. In May 2000, the Company's President and Chief Executive Officer and founder of the Atomic Burrito concept, James E. Blacketer, resigned his positions to pursue other business interests.

Because of declining performances at the Atomic Burrito restaurants through the summer, and because of the Company's lack of cash and inability to raise additional capital to continue the restaurant operations, the Board of Directors decided in late August to discontinue expansion of the concept, close the non-profitable restaurants, and attempt to sell all of the restaurants. In September of 2000, the Oklahoma City and Houston restaurants closed. Also in September of 2000, the Company sold the Norman restaurant to a company whose principal had previously worked for the Company and financed the transaction with a note for \$370,000. In November of 2000, the Company's interest in the Tulsa and Wichita restaurants were sold to a company controlled by the Company's former President, James E. Blacketer, for \$180,000 and \$170,000, respectively, with a \$40,000 down payment and the Company financing with a note the balances of \$160,000 and \$150,000, respectively. At the same time, the Company sold its wholly-owned subsidiary, Atomic Development Corporation, to Mr. Blacketer's company for \$75,000, all of which was financed by the Company.

The Company is still attempting to sell the furniture, fixtures and equipment from the Houston restaurant and continues to attempt to sell the Oklahoma City restaurant.

Government Regulation

Alcoholic beverage control regulations require the nightclubs to apply to a state authority, and, in certain locations, county or municipal authorities for a license or permit to sell alcoholic beverages on the premises and to provide service for extended hours and on Sundays.

Alcoholic beverage control regulations relate to numerous aspects of the daily operation including advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. Licenses to sell alcoholic beverages must be renewed annually and are subject to suspension or revocation for cause, including violation by the Company or its employees of any law or regulation pertaining to alcoholic beverage control, such as those regulating the minimum age of patrons or employees, advertising, wholesale purchasing, and inventory control, handling and storage. Each nightclub and/or restaurant is operated in accordance with stringent procedures designed to

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

assure compliance with all applicable codes and regulations.

In recent years, certain states have enacted "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment, which wrongfully served alcoholic beverages to such person. Presently, Missouri, Kansas, and Oklahoma, the states in which the Company operates, do not have dram-shop statutes. However, should these states enact such statutes, the Company would be subject to additional exposure in such cases where judgments for damages exceeded its insurance coverage.

The development and construction of additional nightclubs will be subject to compliance with applicable zoning, land use and environmental regulations. Management believes that federal and state environmental regulations have not had a material effect on the Company's operations, but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay construction of new nightclubs and add to their cost.

The Company is also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986 and various state laws governing such matters as minimum wages, overtime, tip credits and other working conditions. A significant number of the Company's hourly personnel are paid at rates relating to the federal minimum wage and, accordingly, increases in the minimum wage or decrease in the allowable tip credit will increase the Company's labor cost. The Company may also incur labor cost increases as a result of certain mandatory medical and parental leave benefits legislation enacted by the United States Congress.

The Americans With Disabilities Act prohibits discrimination in employment and public accommodations, such as nightclubs, on the basis of disability. Under the Act, the Company is required to provide service to, or make usable accommodations for the employment and service of, disabled persons.

Competition

The nightclub business is highly competitive. Most of the companies, which own and/or operate nightclubs are substantially larger than the Company, and have greater resources, operating histories and experience. They include many national, regional and local chains with more locations and larger advertising budgets. Nightclub and theme entertainment businesses are also affected by changing customer tastes, local and national economic conditions affecting spending habits, population shifts and traffic patterns. Quality of service, attractiveness of facilities, popularity of entertainment and price are also important factors.

Trademarks

The Company uses the trademark "In Cahoots" in the operation of its business. This mark is used by others in the operation of businesses throughout the country, including other nightclub operators. Because of these uses, the Company believes that it cannot, nor can its competitors, register the mark with the United States Patent and Trademark office to obtain exclusive, nationwide rights to the mark. The Company believes, however, that it has enforceable common law rights to its mark for use in the immediate trade areas in which the Clubs operate, and it has encountered no claims of trademark infringement. As the Company expands, it may encounter claims of trademark infringement requiring the Company to negotiate license agreements with the prior user or to use other non-infringing trademarks for nightclubs in the affected areas.

Employees and Consultants

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

As of April 12, 2001, the Company had one full time employee in the corporate office, Don W. Grimmett, President and Chief Executive Officer. During 2000, the Company had approximately 120 employees in the two nightclubs.

Year 2000 Compliance

The Company entered 2000 with no Y2K problems. Neither the Company's nightclub operations, its restaurant operations, nor its corporate offices and accounting offices experienced any type of Y2K problem. The Company, therefore, believes that its preparation for this potential problem was adequate and successful.

Item 2. Description of Properties

The Company's principal offices are located at 1601 N. W. Expressway, Suite 1910, Oklahoma City, Oklahoma, 73118. The Company's offices occupy approximately 1,000 square feet, for which it pays \$1,500 per month.

In August 1993, the Company entered into a lease for nightclub space in St. Louis, Missouri. The lease, which expires in August 2003, is for a 10 acre parcel of land housing a 106,744 square foot building and parking facilities. The rental for the first five years is \$22,238 per month, escalating to \$26,686 per month for the second five years. The Company has the right to extend the lease for two additional five year periods at increased rental rates. The lease is guaranteed by International Entertainment Consultants, Inc., a company affiliated with Mr. Troy Lowrie. The Company subleases approximately 50,000 feet of this facility for which it receives \$18,312 per month under a one year sublease which expires in December, 2000.

The Wichita Club is leased from Boots, Inc., formerly a 20% limited partner in the In Cahoots Limited Partnership but otherwise unaffiliated with the Company. The lease is for a ten-year term, expiring in the year 2003, with an option to extend the term for two, five-year periods, and requires monthly payments of the greater of \$12,500 or 6% of gross sales. The Company during 1999 amended this lease to provide for additional rent of \$4,333.00 per month for the Pockets Sports Grill addition. This lease was terminated on April 12, 2001 in connection with the sale of the furniture, fixtures, and equipment at the Wichita Club.

The Company carries general liability insurance for the St. Louis Club in the amount of \$2,000,000 and \$850,000 in property liability coverage. In Cahoots Limited Partnership, owner of the Wichita Club, carries \$2,000,000 general liability insurance and building and property insurance coverage in the amount of \$1,800,000 and \$800,000, respectively.

The Company maintains \$1,000,000 in liquor liability insurance coverage at each of its nightclubs, which includes coverage for assault and battery and other risks associated with the nightclub business and with liquor licenses in general.

The Company also maintains various other insurance coverages management deems necessary for the prudent, sound operation of the various properties, including coverage for the loss of business income.

Item 3. 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.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

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 fiscal 2000, no matters were submitted to a vote of the Shareholders.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market Information

On April 11, 2001, there were approximately 101 shareholders of record of the Company's Common Stock. Based upon information received from brokers and others in fiduciary capacity, the Company estimates that the total number of shareholders of the Company's Common Stock exceeds 500 as of that date. The Company's Common Stock was approved for listing on the NASDAQ SmallCap MarketSM, effective May 18, 1994, under the symbol "WCCI" which was later changed to "ATOM" in September, 1999. Prior to listing on NASDAQ, the Company's Common Stock briefly traded in the pink sheets. On March 5, 2001, the Company was notified that it had been delisted by NASDAQ and its shares now trade on the O.T.C. Bulletin Board, under the symbol "ATOM.OB."

The following table sets forth, for the periods indicated, the range of high and low closing bid quotations for the Company's Common Stock, as reported by NASDAQ:

2000 Fiscal Year -----	High Bid (\$) -----	Low Bid (\$) -----
First Quarter	1.250	.625
Second Quarter	2.125	.75
Third Quarter	1.125	.34375
Fourth Quarter	.50	.125
1999 Fiscal Year -----		
First Quarter	1.0625	.625
Second Quarter	1.50	1.00
Third Quarter	1.25	1.062
Fourth Quarter	1.125	.625

On December 31, 2000, the last reported bid and asked prices for the Common Stock were \$0.375 and \$0.25, respectively.

Dividends

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

The Company has never declared a cash dividend with respect to its Common Stock and intends to retain future earnings to support the Company's growth. There are no contractual restrictions on the Company's present or future ability to pay dividends. Future dividend policy is subject to the discretion of the Board of Directors and is dependent upon a number of factors, including future earnings, capital requirements and the financial condition of the Company. The Company declared no dividends on its preferred stock during the year ended December 31, 2000.

Item 6. Management's Discussion and Analysis

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 following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Report.

General

The Company owns and operates two country and western night clubs, 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.

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.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

During February, 2000, the Company opened an Atomic Burrito restaurant in Oklahoma City, Oklahoma, 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.

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 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. In addition, the Company agreed to provide financing of up to \$40,000 to Wichita for operating purposes.

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 loss 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 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 \$200,000 to reflect the anticipated loss on ultimate disposition. This charge was also taken to the loss on discontinued operations.

Liquidity and Capital Resources

Historically, the Company has funded its capital needs through a combination of cash flows from operations, proceeds from public and private placement of securities, and loans from commercial banks, principal shareholders or related persons or entities.

In January through March, 2000, the Company entered into multiple capital lease obligations totaling approximately \$218,000 to obtain various equipment for use in its Atomic Burrito restaurants in Norman and Oklahoma City. The Company continues to make the lease payments on these obligations, even though the locations mentioned have been closed as discussed previously.

In May, 2000, the Company obtained a \$20,000 loan from an affiliated

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

company, and was loaned another \$15,000 in October, 2000. The proceeds from these loans were used for working capital purposes.

In May, 2000, the Company obtained a loan of \$50,000 from a limited liability company, principally for working capital purposes.

In June, 2000, the Company obtained a loan of \$100,000 from a corporation for working capital purposes, collateralized by all its interest in Incahoots Limited Partnership, held through its subsidiary, Entertainment Wichita, Inc.

In October, 2000, the Company obtained a \$50,000 from a limited partnership for working capital purposes. This loan is collateralized by all the Company's interest in Incahoots Limited Partnership, held through its subsidiary, Entertainment Wichita, Inc.

Net cash provided by (used in) operating activities decreased during 2000 to \$(558,950) used in operating activities from \$267,967 provided by operating activities in 1999. Net cash used in investing activities was \$171,338 for 2000 as compared to \$1,244,890 net cash used in investing activities in 1999. Financing activities provided net cash of \$636,640 in 2000 compared with \$944,134 provided in 1999. For the year, net cash decreased to \$78,295 from \$172,622 at the end of 1999. The Company's net cash flow for the year reflected a deficit of \$93,697.

As of December 31, 2000, the Company's working capital position (current assets minus current liabilities) was a negative \$(1,302,957) compared with a negative \$(541,654) at the end of 1999.

Property and equipment is made up primarily of assets required to open and operate the St. Louis and Wichita clubs and certain restaurant equipment which the Company was attempting to dispose at year end. Property and equipment decreased by \$1,142,778 resulting primarily from the disposition of the Tulsa, Wichita, and Norman Atomic Burrito restaurants.

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 \$3,700,000 in net operating losses which will expire commencing in 2013 if not utilized.

On April 12, 2001, Incahoots Limited Partnership, which is owned by the Company's wholly-owned subsidiary, Entertainment Wichita, Inc., sold the furniture, fixtures and equipment at the Wichita Club for a gross sales price of \$1,200,000. The Company expects to realize a capital gain on the transaction of approximately \$625,000, and expects to use the proceeds from the sale to reduce debts at the Wichita Club and to reduce other debt and bank borrowings.

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 - Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues - Total revenues for 2000 were \$4,711,932, a decrease of \$740,402 or 14% compared to 1999. This decrease was due in part to a change in the Company's operating procedures, whereby live entertainment was allowed to charge

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

a cover charge relieving the Company of any obligation to pay engagement fees to these entertainers. This resulted in a decrease of \$381,959 or 40% in admissions fees from \$946,237 in 1999 to \$564,278 in 2000. Also contributing to the drop in revenues was a 9% decrease in beverage and food sales from \$4,236,123 in 1999 to \$3,860,145. Most of this decline was attributable to the Wichita night club which experienced a substantial decline in business.

Total Costs and Expenses - Total costs and expenses decreased during 2000 to \$5,115,333, a decrease of \$426,533 or 8% from 1999, when total costs and expenses were \$5,541,866. This decrease was primarily the result of an emphasis on achieving savings where possible in certain costs and expenses of operations.

Cost of Products and Services - Cost of products and services decreased by \$432,637 or 10% from \$4,500,485 in 1999 to 2000 to \$4,067,848 in 2000. This is attributable in part to a 27% decrease in fees paid to entertainers from \$101,757 in 1999 and \$74,733 in 2000 and in part to a decrease of 5% in the cost of food and beverage sales from \$1,229,486 in 1999 to \$1,173,495 in 2000, as well as decreases in cost of labor and advertising costs.

General and Administrative Expenses - General and administrative expense decreased by 10% from \$683,268 in 1999 to \$612,396 in 2000. This decrease was due primarily to a reduction in personnel expenses and travel costs.

Depreciation and Amortization - Depreciation and amortization increased by 13% or \$35,789 during 2000 to \$317,291 as compared with a total depreciation and amortization during 1999 of \$281,502. This resulted from the increased investment in depreciable assets, primarily leasehold improvements and equipment, furniture and fixtures for the nightclubs, as well as increased amortization related to a covenant not to compete.

Interest Expense - Interest expense increased by 54% or \$41,187 to \$117,798 in 2000 compared to \$76,611 in 1999, principally due to increased borrowings and additional obligations under capital leases.

Loss from Discontinued Operations - During 2000, the Company accrued \$1,182,278 in losses associated with the discontinuance of its Atomic Burrito restaurant operations. This compares to a loss of \$114,299 from the Atomic Burrito restaurant operations in 1999. Included in the 2000 loss from discontinued operations is a \$350,000 allowance for bad debts associated with the notes receivable accepted in exchange for the disposition of certain restaurant operations and an additional \$200,000 write-down of the carrying value of the remaining restaurant assets at its Oklahoma City location.

Preferred Stock Dividends - Preferred stock dividends decreased by 100% from \$13,205 in 1999 to \$0 during 2000. This decrease is attributable to the Company not declaring dividends on preferred stock during 2000.

Net Income (Loss) - The Company's net loss increased by 226% from \$(499,257) in 1999 to \$(1,585,679). The reasons for this difference are explained above. Management believes the subsequent sale of the Wichita night club will allow the Company to substantially reduce its debts and provide it with working capital to refocus on its night club operations.

Item 7. Financial Statements and Supplementary Data

The Company's audited financial statements, together with the report of auditors, are included in the report after the signature page.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

PART III

Item 9. Directors, Executive Officers Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 10. Executive Compensation

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 11. Security Ownership Of Certain Beneficial Owners And Management

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Certain Relationships And Related Transactions

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Exhibits and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial statements: See index to consolidated financial statements immediately following the signature page of this report.
2. Financial statement schedules: Financial statement schedules have been omitted because they are not required or the information is included in the financial statements and notes thereto.
3. Exhibits: Exhibits required to be filed with this Form 10-KSB are identified by the numbers indicated, and, except where incorporated by reference, immediately follow the financial statements.

Number	Description
3.1	Articles of Incorporation, dated December 20, 1989 (1)
3.2	Amendment to Articles of Incorporation, dated November 30, 1993 (1)
3.2	Bylaws of Western Country Clubs, Inc. (1)
4.0	Agreement to convert notes to Series A Preferred Stock dated January 1, 1998 between Troy H. Lowrie and Western Country Clubs, Inc. (12)

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

- 4.1 Agreement to convert note to Series B Preferred Stock dated February 18, 1998 between Ceres, L.L.C. and Western Country Clubs, Inc. (12)
- 9.0 Voting Trust Agreement, dated September 20, 1996, between Red River Concepts, Inc. and Troy H. Lowrie (7)
- 10.1 Lease Agreement, dated August 26, 1993, between Wal-Mart Stores, Inc. and Inc. and Western Country Clubs, Inc. (1)
- 10.2 License Agreement, dated January 20, 1993, between Western Country Clubs, Inc. and Western Country Club I, Ltd. (1)
- 10.3 Option for Limited Partnership Interest, dated September 23, 1993, between Western Country Clubs, Inc. and Merrill E. Roberts (1)
- 10.4 Stock Option Agreement, dated December 16, 1993 (1)
- 10.5 Lease with Option to Purchase, dated December 26, 1993, between and among Edward L. and Barbara L. Benshoof and Western Country Clubs, Inc. (1)
- 10.6 Agreement to Purchase and Sale of Business and Assets, with exhibits, dated November 1, 1994 (2)
- 10.7 Bill of Sale, dated November 1, 1994, transferring Arizona Bar Liquor License No. 06100208 to Western (2)
- 10.8 Amendment to Covenant Not To Compete, updated, between Western and Clarence O. Bond, Jack E. McMurrrough and Ada L. Bond (9)
- 10.9 Agreement and Plan of Merger, dated October 10, 1995, between Western Country Clubs, Inc., Western Newco, Inc., and Cowboys Concert Hall - Arlington, Inc. (6)
- 10.10 Lease with Option to Purchase, dated October 14, 1992, between Expo Bowl, Inc. and Texas of Indy, Inc. (1)
- 10.11 Guaranty of Lease with Option to Purchase, dated October 14, 1992, by Troy H. Lowrie (1)
- 10.12 First Amendment to Lease with Option to Purchase, dated January 20, 1993, between Expo Bowl Inc. and Texas of Indy, Inc. (1)
- 10.13 Warranty Deed, dated February 28, 1993, in the name of Western Country Club I, Ltd. (1)
- 10.14 State of Indiana, Certificate of Trade Mark Registration, dated August 18, 1993, in the name of Texas of Indy, Inc. for "A Little Bit of Texas" and Design (1)
- 10.15 Lease, dated April 2, 1993, between Texas of Indy, Inc. and Great Western Boot Company (1)
- 10.16 Operating Agreement dated March 17, 1993, between Texas of Indy, Inc. and Taco Bell Corp. (1)
- 10.17 Option Agreement, dated January 20, 1993, between and among Western Country Club I, Ltd., Troy H. Lowrie and Merrill Roberts (1)
- 10.18 Amended Limited Partnership Agreement of Western Country Club I,

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Ltd. (1)

- 10.19 Consulting Agreement dated January 20, 1993, between Western Country Club I, Ltd. and Texas of Indy, Inc. (1)
- 10.20 Security Agreement, dated March 18, 1993, between Western Country Club I, Ltd. and Texas of Indy, Inc. (1)
- 10.21 Option to Purchase Assets, dated January 20, 1993, between Western Country Club I, Ltd. and Texas of Indy, Inc. (1)
- 10.22 Promissory Note, dated January 31, 1994, from Western Country Club I, Ltd. to Expo Bowl, Inc. in the amount of \$150,000 (1)
- 10.23 Guaranty, dated January 31, 1994, of Promissory Note to Expo Bowl, Inc. by Troy H. Lowrie (1)
- 10.24 Promissory Note, dated January 31, 1994, from Western Country Club I, Ltd. to Dulaney National Bank (1)
- 10.25 Articles of Incorporation of WCWW Acquisition Corporation, dated January 20, 1995 (4)
- 10.26 Interim Permit, dated February 9, 1995, from the Arizona Department of Liquor Licenses and Control for the Wild Wild West nightclub (5)
- 10.27 Stock Purchase Agreement, dated September 21, 1996, between and among Troy H. Lowrie, Western Country Clubs, Inc. and Red River Concepts, Inc. (7)
- 10.28 Lease Agreement, dated July 30, 1993, by and between Boots, Inc. and In Cahoots Limited Partnership (9)
- 10.29 Agreement and Plan of Merger, dated December 16, 1996, by and between Western Country Clubs, Inc., Entertainment Wichita, Inc., and WCCI Acquisition Corp. (8)
- 10.30 Contract of sale dated December 26, 1997, and note dated January 9, 1998, between Western Country Clubs, Inc. and Backstage Entertainment. (11)
- 10.31 Contract of sale dated November 25, 1997, along with addendum numbers 1 through 3 thereto, and note dated February 19, 1998, between Western Country Clubs, Inc. and A Little Bit of Texas, Ltd. (11)
- 10.32 Agreement and Covenant Not to Execute dated February 18, 1998, between In Cahoots Limited Partnership, Western Country Clubs, Inc. and Jana Oelkers. (11)
- 10.33 Form of License Agreement for Atomic Burrito, Inc. restaurants
- 10.34 Joint Venture Agreement between Western Country Clubs, Inc. and New York Bagel Enterprises, Inc. dated October 27, 1998

Exhibits

- 11 Calculation of Earnings Per Share
- 21 Subsidiaries of the Registrant

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

- (1) Incorporated by reference from the like numbered exhibits filed with the Registrant's Registration Statement on Form SB-2, No. 33-72942.
 - (2) Incorporated by reference from Western's Current Report on Form 8-K, dated November 1, 1994, attached as Exhibits 10.1 and 10.2 thereto.
 - (3) Incorporated by reference from Western's Annual Report on Form 10-KSB, dated February 27, 1995, attached as Exhibit 21 thereto.
 - (4) Incorporated by reference from Western's Annual Report on Form 10-KSB, dated February 27, 1995, attached as Exhibit 28.16 thereto.
 - (5) Incorporated by reference from Western's Annual Report on Form 10-KSB, dated February 27, 1995, attached as Exhibit 28.17 thereto.
 - (6) Incorporated by reference from Western's Current Report on Form 8-K, dated October 19, 1995, attached as Exhibit 10.1 thereto.
 - (7) Incorporated by reference from Western's Current Report on Form 8-K, dated October 10, 1996, attached as Exhibit 9 thereto.
 - (8) Incorporated by reference from Western's Current Report on Form 8-K, dated October 10, 1996, attached as Exhibit 2 thereto.
 - (9) Incorporated by reference from the like numbered exhibits filed with the Registrant's Registration Statement on Form SB-2, dated February 11, 1997, No. 333-21547.
 - (10) Incorporated by reference from Western's Current Report on Form 8-K, dated February 6, 1998, attached as Exhibits 10.0, 10.1 and 10.2 thereto.
 - (11) Incorporated by reference from the like numbered exhibits filed with Western's Current Report on Form 8-K, dated February 6, 1998.
 - (12) Incorporated by reference from the like numbered exhibits filed with Atomic's Current Report on Form 8-K, dated October 12, 1999, attached as Exhibits 10.0 and 99.1.
- (b) During the last quarter of 2000, no filings were made by the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

April 13, 2001

Atomic Burrito, Inc.

By: /s/ Don W. Grimmatt

Don W. Grimmatt, President

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Don W. Grimmett	President, Principal Executive Officer, Principal Financial Officer and Director	April 13, 2001
/s/ Joe R. Love	Director	April 13, 2001

ATOMIC BURRITO, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000 AND 1999

TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS.....	1
FINANCIAL STATEMENTS	
Consolidated Balance Sheets.....	3
Consolidated Statements of Income.....	5
Consolidated Statement of Stockholders' Equity.....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Independent Auditors' Report

To the Board of Directors
Atomic Burrito, Inc.

We have audited the accompanying consolidated balance sheet of ATOMIC BURRITO, INC., an Oklahoma corporation, survivor corporation in a merger with Western Country Clubs, Inc., a Colorado corporation, as of December 31, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atomic Burrito, Inc., as of December 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with auditing principles generally accepted in the United States of America.

Hogan & Slovacek

Oklahoma City, OK
April 13, 2001

1

Independent Auditors' Report

To the Board of Directors
Atomic Burrito, Inc.

We have audited the accompanying consolidated income, stockholders' equity and cash flows statements of ATOMIC BURRITO, INC., an Oklahoma corporation, survivor corporation in a merger with Western Country Clubs, Inc., a Colorado corporation, for the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During September 2000, the Company elected to discontinue its Atomic Burrito restaurant operations. The Atomic Burrito restaurant operations for 1999 were reclassified as losses from discontinued operations to be in conformity with the presentation for the fiscal year ended December 31, 2000. See Note 13 for further details.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Atomic Burrito, Inc. for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

Gray & Northcutt, Inc.

March 24, 2000, except as to the third paragraph above and Note 13, which are as of April 13, 2001

2

ATOMIC BURRITO, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2000
Page 1 of 2

ASSETS

CURRENT ASSETS:

Cash	\$ 78,925
Accounts receivable	1,918
Accounts receivable due from related party	9,514
Current portion of notes receivable	37,266
Inventories	61,815
Prepaid expenses	64,169
Deferred income taxes	100,000

Total current assets	353,607

PROPERTY AND EQUIPMENT:

	2,900,795
Accumulated depreciation	(1,901,884)

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

	----- 998,911 -----
OTHER ASSETS:	
Notes receivable from affiliate	630,000
Notes receivable, net of current portion shown above	367,734
Goodwill, net of accumulated amortization of \$8,970	80,734
Covenant not to compete, net of accumulated amortization of \$13,333	46,667
Deposits and other	62,938
Investment	177,400
	----- 1,365,473 -----
	\$ 2,717,991 =====

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

3

ATOMIC BURRITO, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2000
Page 2 of 2

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 573,067
Accrued liabilities	196,010
Note payable - related party	28,005
Current portion of long-term debt	798,290
Current portion of capital leases	45,692

Total current liabilities	1,641,064

LONG-TERM DEBT, net of current portion shown above	366,612

OBLIGATION UNDER CAPITAL LEASE, net of current portion shown above	146,648

MINORITY INTERESTS	4,962

COMMITMENTS AND CONTINGENCIES	-

STOCKHOLDERS' EQUITY:

10% convertible preferred stock, Series A \$10 par value,

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

500,000 shares authorized, 40,000 shares issued and outstanding	400,000
10% convertible preferred stock, Series B \$10 par value, 100,000 shares authorized, no shares issued and outstanding	-
10% convertible preferred stock, Series C \$10 par value, 6,000 shares authorized, 6,000 shares issued and outstanding	60,000
10% convertible preferred Stock, Series D, \$10 par value, 80,000 shares available, no shares issued and outstanding	-
Common stock, \$.001 par value, 25,000,000 shares authorized; 4,915,621 shares issued and outstanding	4,916
Additional paid-in capital	5,106,595
Accumulated deficit	(5,012,806)

Total stockholders' equity	558,705

	\$ 2,717,991
	=====

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

4

ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
	-----	-----
REVENUES:		
Beverage and food sales	\$ 3,860,145	\$ 4,236,123
Admission fees	564,278	946,237
Other income	287,509	269,974
	-----	-----
	4,711,932	5,452,334
	-----	-----
COSTS AND EXPENSES:		
Cost of products and services	4,067,848	4,500,485
General and administrative expense	612,396	683,268
Depreciation and amortization	317,291	281,502
Interest expense	117,798	76,611
	-----	-----
	5,115,333	5,541,866
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(403,401)	(89,532)
INCOME TAX (EXPENSE)	-	(267,741)

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

	-----	-----
INCOME (LOSS) BEFORE MINORITY INTERESTS	(403,401)	(357,273)
MINORITY INTERESTS IN (INCOME) LOSS OF CONSOLIDATED SUBSIDIARIES	-	(14,480)
	-----	-----
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(403,401)	(371,753)
DISCONTINUED OPERATIONS:		
Loss from operations of restaurants disposed of (net of income taxes)	(1,182,278)	(114,299)
	-----	-----
NET INCOME (LOSS) BEFORE DIVIDENDS	(1,585,679)	(486,052)
PREFERRED STOCK DIVIDENDS	-	(13,205)
	-----	-----
NET INCOME (LOSS)	\$ (1,585,679)	\$ (499,257)
	=====	=====
BASIC EARNINGS PER SHARE	\$ (0.36)	\$ (0.13)
	=====	=====
DILUTED EARNINGS PER SHARE	N/A	N/A
	=====	=====
AVERAGE COMMON AND COMMON EQUIVALENT: BASIC SHARES	4,400,577	3,870,665
	=====	=====

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

5

ATOMIC BURRITO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	Series A 10% Convertible Preferred Stock	Series B 10% Preferred	Series C 10% Convertible Preferred Stock	Series D 10% Preferred	Common Stock	Additional Paid-In Capital
	Value of Shares	Value of Shares	Value of Shares	Value of Shares	\$0.001 par Value (1)	
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998	\$ 400,000	\$ 145,000	\$ -	\$ -	\$ 3,735	\$4,397,
Redemption preferred stock	-	(145,000)	-	-	-	
Common stock issued						

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

in settlement of accounts payable	-	-	-	-	111	65,
Exercise of stock options	-	-	-	-	30	22,
Common stock issued to acquire restaurant	-	-	-	-	360	269,
Cash dividends Preferred- \$1 per \$1.20 per share	-	-	-	-	-	-
Net loss year ended December 31, 1999	-	-	-	-	-	-
Balance, December 31, 1999	\$ 400,000	\$ -	\$ -	\$ -	\$ 4,236	\$4,754,
Balance, December 31, 1999	\$ 400,000	-	-	-	\$ 4,236	\$4,754,
Exercise of stock options	-	-	-	-	170	127,
Preferred Stock issued	-	-	60,000	-	-	-
Common stock issued to purchase interest in Boots, Inc.	-	-	-	-	200	149,
Common stock issued for cash	-	-	-	-	310	74,
Net loss twelve months ended December 31, 2000	-	-	-	-	-	-
Balance, December 31, 2000	\$ 400,000	\$ -	\$ 60,000	\$ -	\$ 4,916	\$5,106,

(1) The common stock and additional paid-in capital have been adjusted retroactively to reflect the change in par value from \$0.1 to \$.001 on September 3, 1999.

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

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,585,679)	\$ (486,052)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities -		
Depreciation and amortization	339,594	335,305
Noncash charges to discontinued operations	781,888	-
Gain on sale of assets	-	(100,000)
Minority interests in earnings of subsidiaries	-	(66,867)
Deferred tax provisions	-	267,740
Changes in assets (increase) decrease -		
Accounts receivable	66,436	215
Due from related parties	486	-
Inventories	33,833	(36,257)
Prepaid expenses	(26,150)	69,138
Deposits and other assets	29,565	(84,364)
Changes in liabilities increase (decrease) -		
Accounts payable	(51,374)	374,427
Accrued expenses	(122,548)	17,582
Dividends payable	-	(22,900)
	-----	-----
Net cash provided by (used in) operating activities	(533,949)	267,967
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes and loans receivable	-	(50,000)
Repayments of notes receivable	(28,642)	313,495
Acquisition of property and equipment	(167,746)	(1,508,385)
	-----	-----
Net cash used in investing activities	(196,388)	(1,244,890)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Partnership distributions to minority interests	105,402	217,750
Sale of common stock	202,424	26,340
Sale of preferred stock	60,000	-
Retirement of preferred stock	-	(145,000)
Payments of dividends	-	(13,205)
Repayments of notes payable, related parties	-	(30,656)
Borrowings under notes payable and capital leases	323,985	1,243,163
Repayments of notes payable and capital leases	(55,171)	(354,258)
	-----	-----
Net cash provided by financing activities	636,640	944,134
	-----	-----
NET INCREASE (DECREASE) IN CASH	(93,697)	(32,789)
CASH, BEGINNING OF PERIOD	172,622	205,411
	-----	-----
CASH, END OF PERIOD	\$ 78,925	\$ 172,622
	=====	=====

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

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

7

ATOMIC BURRITO, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
 Page 2 of 2

	2000	1999
	-----	-----
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 117,798	\$ 76,903
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
During March 1999, the Company sold its rights to a note receivable, previously written off, for a \$100,000 note receivable due from the affiliate.	\$ -	\$ 100,000
During 1999, the Company issued 111,000 shares of common stock in settlement of accounts payable totaling \$65,500.	\$ -	\$ 65,000
On December 31, 1999, the Company issued 360,000 shares of common stock to acquire cash of \$3,840 plus all assets and liabilities of AB of Norman, L.L.C.	\$ -	\$ 3,840
During June 2000, the Company issued 200,000 shares of its common stock in exchange for the 20% interest in Boots, Inc. not owned by the Company. This transaction was valued at \$150,000 for financial reporting purposes, resulting in goodwill of \$89,704.	\$ 150,000	\$ -
During September 2000, the Company sold the assets and operations of its Atomic Burrito restaurant in Norman, Oklahoma in exchange for a note receivable of \$370,000.	\$ 370,000	\$ -
During November 2000, the Company sold the assets, liabilities and operations of its Atomic Burrito restaurants in Tulsa, Oklahoma and Wichita, Kansas and Atomic Development Corporation in exchange for notes receivable totaling \$385,000. The restaurants and the development company were sold to a former officer of the Company.	\$ 385,000	\$ -

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

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

8

ATOMIC BURRITO, INC. Notes to Consolidated Financial Statements December 31, 2000 and 1999

1. DESCRIPTION OF BUSINESS

Atomic Burrito, Inc. (the "Company"), was incorporated on July 19, 1999 as Western Oklahoma, Inc. On September 3, 1999, Western Oklahoma, Inc., a shell corporation, was merged with Western Country Clubs, Inc., a Colorado corporation, incorporated on December 19, 1989. Western Oklahoma, Inc. became the surviving corporation in this merger. On September 3, 1999, Western Oklahoma, Inc. changed its name to Atomic Burrito, Inc. These financial statements include the activity of Western Country Clubs, Inc. prior to its merger with Western Oklahoma, Inc.

During 2000, the Company decided not to continue developing its "Atomic Burrito" restaurants and sold two of its locations, along with the "burrito concept", to its then president, who resigned in May 2000. The Company also ended its joint venture agreement with New York Bagel Enterprises, Inc., sold its Norman store location and abandoned the Oklahoma City and Houston stores. The following subsidiaries consolidated in prior years participated in the activities of the "burrito concept":

Atomic Development, Inc., was a wholly owned subsidiary which held the "burrito concept" and was responsible for developing it, was sold to the Company's former president (see Note 13).

AB of Tulsa-I, L.L.C., 57% owned, and AB of Wichita-I, L.L.C., 60% owned, were locations which were sold to the Company's former president (see Note 13).

AB of Norman-I, L.L.C., 100% owned, formed in 1999, was sold (see Note 13).

AB of Houston-I, L.L.C., 50% owned, formed in 1999, was abandoned (see Note 13).

AB of OKC-I, L.L.C., 100% owned, formed in 1999, and awaiting disposition (see Note 13).

Other subsidiaries and divisions which remain active are as follows:

Western Country Club 1, Ltd. ("Indy") is a limited partnership formed on January 19, 1993. Indy owned and operated a nightclub in Indianapolis, Indiana, which was sold in early 1998. As of December 31, 2000, this partnership owns \$480,000 in notes receivable, which are to be distributed to the Company in liquidation of this partnership.

The St. Louis division of the Company was acquired on October 7, 1994. This division operates a nightclub in St. Louis, Missouri.

Entertainment Wichita, Inc. ("EWI"), a wholly-owned subsidiary, owns In Cahoots, Ltd. ("In Cahoots"). In Cahoots is a limited

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

partnership that owns and operates a nightclub in Wichita, Kansas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates were made in determining the losses attributable to discontinued operations.

Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority owned subsidiaries, limited liability companies and partnerships as described in Note 1 above. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments

Investments in partnerships in which the Company owns less than a 20% interest are accounted for on the cost basis reduced by any permanent impairments in the investment's carrying value.

Inventories

Inventories consist of liquor, wine, beer, boutique items, and food items. Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the assets' estimated useful lives as follows: leasehold and other improvements, 10-15 years; restaurant equipment, 7-10 years; furniture and fixtures, 7-10 years; signage, 10 years.

Intangibles

Organization costs, liquor license costs and goodwill are amortized over five years. The covenant not to compete is amortized over 3 years.

Measurement of impairment

At each balance sheet date, the Company reviews the amount of recorded goodwill, covenant not to compete, related nightclub assets and the related restaurant assets (separately by club and restaurant) for impairment. Whenever events or changes in circumstances indicate that the carrying amount of the expected cash flows from these assets

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

is less than the carrying amount of these assets, the Company will recognize an impairment loss in such period in the amount by which the carrying amount of the assets exceeds the fair value of the assets. These considerations were made in recording the losses arising from the discontinued operations.

Repairs and maintenance

Normal costs incurred to repair and maintain fixed assets are charged to operations as incurred. Repairs and betterments, which extend the life of an asset are capitalized and subsequently depreciated on a straight-line basis over the remaining useful life of the asset. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations. Loss from discontinued operations includes the gains and losses attributable to equipment and fixtures sold or abandoned.

Income taxes

Income taxes are provided based on earnings reported in the financial statements. The Company follows Statement of Financial Accounting Standards No. 109 whereby deferred income taxes are provided on temporary differences between reported earnings and taxable income. See Note 10 for further detail.

Net income (loss) per common share

Basic income(loss) per common share is computed by dividing income(loss) by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects potential dilution that could occur if preferred stock or other contracts to issue common stock were exercised or converted into common stock. Diluted net loss per common share does not reflect dilution from potential common shares, because to do so would be antidilutive.

Concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily cash and temporary cash investments. The Company places its cash investments in highly rated financial institutions. At times, the Company may have bank deposits in excess of Federal Deposit Insurance Commission (FDIC) limits. At December 31, 2000, the Company had no uninsured deposits.

Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

3. NOTES AND LOANS RECEIVABLE

The Company had the following notes and loans receivable at December 31, 2000:

9% note receivable due from a corporation, due October 2005	\$ 75,000
9% note receivable due from a corporation, due October 2005	150,000

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

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
Current portion	37,266

Long-term portion	\$ 367,734
	=====

In addition, the Company had the following notes receivable due from affiliates as of December 31, 2000:

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
	=====

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2000, include the following:

Leasehold and other improvements	\$1,739,238
Restaurant and club equipment	593,635
Furniture and fixtures	297,565
Signage	70,357

	2,700,795
Less accumulated depreciation	(1,701,884)

Total property and equipment	\$ 998,911
	=====

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 (See Note 13).

Included in the accompanying consolidated statement of operations is \$339,594 and \$335,305 of depreciation and amortization expense for 2000 and 1999, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

The carrying amounts of cash, short-term notes receivable, commercial paper and accounts payable approximate fair value because of the short-term maturity of these instruments. Management has established an appropriate allowance to reduce the carrying amount of long-term notes receivable to approximate fair value.

The carrying value of long-term debt, including the current portion in the financial statements, approximates fair value.

6. IMPAIRMENT OF LONG-LIVED ASSETS

During 2000, the Company recognized an impairment of \$200,000 on the assets of AB of OKC-I and an impairment of \$108,373 on the assets of AB of Houston-I. These impairments were recognized in connection with the Company's decision to discontinue development of its "Atomic Burrito" restaurants.

7. NOTES PAYABLE

As of December 31, 2000, the Company had a \$28,005 note payable to a related party at 1% over prime, payable in monthly installments of \$6,250. The note is secured by the ownership interest of a stockholder and the guarantee of a financial corporation and had an original maturity of July 2000.

Long-term debt consists of the following at December 31, 2000:

9% note payable to a bank, due in monthly installments of \$12,000 including interest through April 2002, secured by personal guarantees of stockholders, and equipment.	\$ 472,889
9.25% note payable to a bank, due in monthly installments of \$6,172 including interest through April 2001, secured by personal guarantees of stockholders, and equipment.	291,935
8.5% note payable to a bank, due in monthly installments of \$4,116 including interest through August 2000, secured by personal guarantees of stockholders, accounts receivable, inventory, and equipment. At December 31, 2000, the Company was in the process of renegotiating the terms of this note payable.	165,078
13.5% note payable to a mortgage company, due in monthly installments of \$7,500 through September 2000, secured by accounts receivable, inventory, and equipment. This note was satisfied in connection with the sale of the Wichita	

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

In Cahoots club (See Note 14).	100,000
13.5% note payable to a limited liability partnership, with all principal and interest due April 2001, secured by all interest in InCahoots Limited Partnership via Entertainment Wichita, Inc. In the event of non-payment by due date, the interest rate on this note adjusts to 19.5%. This note was satisfied in connection with the sale of the Wichita In Cahoots club (See Note 14).	50,000
10% note payable to a limited liability company, due May 2001	50,000
10% note payable to an affiliate, due May 2001 (See Note 7)	35,000 -----
Total	1,164,902
Less: Current portion	(798,290) -----
Noncurrent portion	\$ 366,612 =====

Maturities of long-term debt are as follows:

Year ending December 31, -----	Amount -----
2001	\$ 798,290
2002	366,612 -----
	\$ 1,164,902 =====

8. RELATED PARTY TRANSACTIONS

On July 3, 1993 In Cahoots signed a ten-year lease. The lessor is a 20% limited partner of In Cahoots. Rent expense under this lease for the years ended December 31, 2000 and 1999, amounted to \$201,996 and \$167,831, respectively.

On October 1, 1996, EWI assumed \$150,000 of debt when it acquired control of In Cahoots. The remaining balance of \$28,005 at December 31, 2000 is due to a former limited partner of the Company.

On February 6, 1998, the Company sold its Indianapolis club to a major stockholder of the Company for a \$600,000 note and the assumption of \$490,426 of long-term debt and \$60,078 of accrued interest and taxes, less \$13,000 to be refunded to the buyer. The Company remains contingently liable for these debts until they are paid in full by the purchaser. As of December 31, 2000, the note receivable balance was \$480,000.

During March 1999, the Company sold its rights to a fully reserved receivable to an affiliate for a \$100,000 note receivable from the affiliate.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

During November 2000, the Company sold its interest in its Atomic Burrito restaurants in Tulsa, Oklahoma and Wichita, Kansas to a major stockholder and former president of the Company for notes receivable totaling \$385,000. As of December 31, 2000, these notes were reduced to a net realizable value of \$206,500 through the establishment of a reserve for future collectibility.

The Company has a note payable to an affiliate not to exceed \$50,000. This note includes interest at 10% and is payable upon maturity in May 2001. Amounts borrowed on this note are funded at the discretion of the affiliate. At December 31, 2000, the balance of this note was \$35,000.

9. STOCKHOLDERS' EQUITY

On April 16, 2000, dividends in arrears on the Company's 10% convertible preferred stock totaling \$30,000 were waived.

On December 29, 2000, dividends in arrears on the Company's 10% Series A convertible preferred stock totaling \$40,000 were waived.

On March 9, 2000, the Board of Directors approved an Omnibus Equity Compensation Plan for employees and consultants. The aggregate number of common shares as to which options and awards may be granted shall not exceed 572,208. At the time of grant, the Company will determine the exercise price and the vesting period. The Company's existing equity-based compensation plans shall be incorporated into this Plan.

During 1999, the Company redeemed all outstanding Series B cumulative convertible preferred stock.

During 1999, the Company issued 111,000 shares of common stock in settlement of payables totaling \$65,501.

During 2000 and 1999, stock options for 169,900 and 30,000 shares, respectively of the Company's common stock were exercised at \$0.75 per share.

During December of 1999, the Company acquired certain assets and the operations of an Atomic Burrito restaurant located in Norman, Oklahoma in exchange for 360,000 shares of the Company's restricted common stock and the assumption of \$60,967 in debt. The voting rights to this stock were placed in a voting trust for a period of one year. This acquisition was treated as a purchase for financial reporting purposes.

The break down on this purchase is as follows:

Current Assets	\$ 19,093
Property and Equipment	270,000
Other Assets	13,500
Goodwill	38,374

	\$ 340,967
	=====
Accounts payable	\$ 70,967
Capital stock issued	270,000

	\$ 340,967
	=====

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

As discussed at Note 13, the Company sold the Norman restaurant location during September 2000.

A schedule of the Company's preferred and common stock transactions for the years ended December 31, 1999 and 2000 is as follows:

	Series A 10% Convertible Preferred Stock	Series B 10% Convertible Preferred Stock	Series C 10% Convertible Preferred Stock	Series D 10% Convertible Preferred Stock
	Number of Shares	Number of Shares	Number of Shares	Number of Shares
Balance, December 31, 1998	40,000	14,500	-	-
Redemption preferred stock	-	(14,500)	-	-
Common stock issued in settlement of accounts payable	-	-	-	-
Exercise of stock options	-	-	-	-
Common stock issued to acquire restaurant	-	-	-	-
Balance, December 31, 1999	40,000	-	-	-
Exercise of stock options	-	-	-	-
Preferred Stock issued	-	-	6,000	-
Common stock issued to purchase interest in Boots, Inc.	-	-	-	-
Common stock issued for cash	-	-	-	-
Balance, December 31, 2000	40,000	-	6,000	-

10. INCOME TAXES

As of December 31, 2000, the Company's deferred tax assets were as

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

follows:

Tax over book basis of fixed and intangible assets	\$ 191,748
Net operating loss carryforwards	1,328,259
Charitable contribution carryforwards	1,549

	1,521,556
Valuation allowance	(1,421,556)

Net deferred tax asset	100,000
Current asset	100,000

Long-term asset	\$ -
	=====

Realization of the deferred tax asset is dependent upon the Company generating sufficient future taxable income against which its loss carryforward and loss from impairment of long-lived assets can be offset. Management has determined that it is not likely that the Company will be able to realize all the tax benefits from the net operating loss carryforward and impairment of long-lived assets and has therefore reduced the deferred tax asset by a valuation allowance. During 1999, the Company revised downward by \$267,740 its estimate of the realizable portion of its deferred tax asset, resulting in a \$267,740 charge to current year income tax expense.

Changes in the components of the Company's deferred tax assets for 2000, are as follows:

Deferred tax asset - beginning of year	\$ 100,000
Difference between book and tax depreciation	(103,514)
Leases with scheduled rent increases	(36,293)
Net operating loss carryforwards	368,394
Change in valuation allowance	(228,587)
Charge against current year earnings	-
Valuation allowance charged against current operations	-

Deferred tax asset - end of year	\$ 100,000
	=====
Current portion of deferred tax asset	\$ 100,000
Long-term portion of deferred tax asset	-

	\$ 100,000
	=====

The difference between the Company's effective income tax rate and the United States statutory rate is reconciled below for the years ended December 31, 2000 and 1999:

	2000	1999
	-----	-----
United States statutory rate	0.0%	0.0%
State income taxes, net of federal income tax benefit (cost)	0.0	0.0

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

Increase in valuation allowance	0.0	0.0
Other	0.0	0.0
	-----	-----
	0.0%	0.0%
	=====	=====

At December 31, 2000, the Company has a net operating loss carryforward of approximately \$3,700,000 which begins to expire in 2013.

Based upon the sale of the Wichita In Cahoots club, the deferred tax asset of \$100,000 at December 31, 2000 is expected to be fully realized in 2001.

11. COMMITMENTS

Capital Leases

The Company is the lessee of certain restaurant equipment under capital leases expiring through 2005. The assets and liabilities under the capital leases are recorded at the fair value of the assets. The assets are amortized over the estimated productive lives. Amortization of assets under the capital leases is included in depreciation expense for 2000 and 1999.

Minimum future lease payments under capital leases as of December 31, 2000 for each of the next five years and in the aggregate are:

Year ending December 31, -----	Amount -----
2001	\$ 76,797
2002	72,049
2003	57,016
2004	53,669
2005	6,909

Total minimum lease payments	266,440
Less: amount representing interest	(74,100)

Amount representing principal	192,340
Less: current portion	(45,692)

Long-term portion	\$146,648
	=====

These capital leases provide for a purchase price of \$1 at the expiration of their respective lease terms.

Operating Leases

On July 30, 1993, In Cahoots entered into a building lease for club operations in Wichita, Kansas, with a 20% limited partner. The lease term is ten years commencing October 15, 1993. In addition to minimum rental payments of \$12,500, In Cahoots is obligated to pay to the landlord, as additional rent, a percentage of gross sales after deductions for alcohol and sales taxes. The lease agreement contains two five-year renewal options at the primary lease term rental rate. The Company, during 1999, amended this lease to provide for additional rent of \$4,333 per month for the Pockets Sports Grill addition. As discussed

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

in Note 14, the furniture, fixtures and equipment at the Wichita Club were sold effective April 11, 2001.

In December 1993, the Company entered into a building lease for club operations in St. Louis, Missouri. The lease term is ten years with two five-year renewal options. Minimum rent per month is \$22,238 for years one through five and \$26,686 per month for years six through ten. The lease requires a \$25,000 security deposit, and is guaranteed by an affiliated Company.

On October 4, 1999, the Company entered into a lease agreement for 4,250 square feet of space in Oklahoma City, Oklahoma, for a Company-owned Atomic Burrito restaurant. The lease is for a term of 5 years and 4 months, with two five-year option periods at prices increased from the initial term rent of \$4,227 per month. Although operations at this restaurant have been discontinued, the Company continues to make payments in accordance with the terms of this lease (See Note 13).

Rent expense for the years ended December 31, 2000 and 1999 amounted to \$557,206 and \$560,657, respectively. Rent expense for 2000 and 1999 is net of \$183,128 and \$139,607, respectively, of rental income received.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2000 for each of the next five years and in the aggregate are:

Year ending December 31, -----	Amount -----
2001	\$ 370,956
2002	370,956
2003	344,270
2004	50,724
2005	4,227

	\$1,141,133
	=====

These commitments do not reflect rental income expected to be received from sublease of a portion of the St. Louis facility.

Three B's Restaurant Group -----

In connection with the sale of its 'Atomic Burrito' restaurants to Three B's (See Note 13), the Company agreed to provide financing of up to \$40,000 AB of Wichita-I L.L.C. for operating purposes. Any funds advanced in accordance with this agreement are secured by all options and warrants owned by the former president of the Company. As of December 31, 2000, no funds had been advanced to Three B's under this agreement.

12. LITIGATION

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, principally personal injury claims resulting from incidents occurring on the premises of the Company's nightclubs. While it is not feasible to predict or determine the financial outcome of these proceedings, management does not believe that they will result in a materially adverse effect on the Company's financial position, results of operations or liquidity.

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

13. 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 \$178,500 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 \$171,500 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.

At December 31, 2000, the Company believes that it has provided for all potential losses attributable to its decision to dispose of the Atomic Burrito restaurant concept and has reflected this loss in discontinued operations of the Company.

14. 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 location together

Edgar Filing: ATOMIC BURRITO INC - Form 10-K

with certain other assets at this location. The Company closed on this sale on April 12, 2001, realizing a gain of approximately \$625,000 in connection with this transaction. Certain notes payable to a mortgage company and a limited liability partnership, along with accrued interest due, were satisfied in connection with this transaction (See Note 7).

Exhibit 11

ATOMIC BURRITO, INC.

CALCULATION OF EARNINGS PER SHARE

DECEMBER 31, 2000

	Date	Shares Outstanding	Days Outstanding	Weighted Average Shares
	-----	-----	-----	-----
BASIC EARNINGS (LOSS) PER SHARE:				
Common shares outstanding at December 31, 1999	12/31/1999	4,235,721	365	4,235,721
Exercise of stock options	2/29/2000	18,750	214	10,993
Exercise of stock options	3/31/2000	34,250	183	17,172
Exercise of stock options	4/30/2000	105,900	153	44,389
Exercise of stock options	5/31/2000	7,000	122	2,340
Issuance of common stock for 20% interest in Boots, Inc.	6/30/2000	200,000	93	50,959
Common stock issued for cash	8/18/2000	60,000	43	7,068
Exercise of stock options	8/22/2000	2,000	39	214
Common stock issued for cash	8/22/2000	2,000	39	214
Common stock issued for cash	11/15/2000	250,000	46	31,507
		-----		-----
Common shares outstanding at December 31, 2000		4,915,621		4,400,577
		=====		=====
Net earnings (loss) per share				\$(1,585,679)
				=====
Basic earnings (loss) per share				\$ (0.36)
				=====