

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

Commission file number 333-94797

HUDSON'S GRILL INTERNATIONAL, INC.
(Name of small business issuer in its charter)

Texas
(State or other jurisdiction of incorporation)

75-2738727
(IRS Employer Identification Number)

16970 Dallas Parkway, Suite 402, Dallas, Texas 75248
(Address of Principal Executive Offices)

Issuer's telephone number, including area code:
(972) 931-9237

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 the past 90 days.

Yes ☒ No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

7,256,986 shares of Class A Common Stock

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

See the attached statements at the end of this Form 10-QSB.

Item 2. Management Discussion and Analysis or Plan of Operation.

Material changes in the financial condition of the registrant and in the results of its operations since the end of its last fiscal year and its results from the comparable period in its last fiscal year include the following.

The registrant's cash decreased to \$15,937 at March 31, 2002 ("Q1") from \$23,894 at December 31, 2001 ("FYE"). The registrant's accounts receivable decreased to \$13,953 at Q1 from \$22,313 at FYE. Its other assets at Q1 were about the same when compared to FYE, except to the extent of additional depreciation that was taken during the current year.

Accounts payable and accrued expenses decreased at Q1 to \$47,283 from \$54,204 at FYE. The accounts payable to related parties decreased at Q1 to \$93,252 from \$99,612 at FYE. The registrant's other liabilities at Q1 were about the same when compared to FYE. The decrease resulted from debts being paid off from profits earned by the registrant since FYE and from other cash flows.

Material changes in the results of operations of Q1 compared to the first quarter of 2001 ("Q01") include the following. Revenues decreased to \$64,852 during Q1 from \$77,467 during Q01 because of slower overall sales due to the economic downturn. General and administrative increased slightly during Q1 to \$73,360 from \$71,663 during Q01 primarily due to legal expenses incurred to complete a settlement with the registrant's former

California attorneys and legal expenses incurred to monitor the problem. Consequently, income from operations decreased to a loss of (\$10,191) during Q1 from income of \$4,121 during Q01. Settlement income decreased during Q1 to \$9,000 from \$16,000 during Q01 because the initial settlement payment in Q01 was larger than the scheduled monthly payments. The registrant's other expenses during Q1 were about the same when compared to Q01, and thus, its total other income dropped to \$11,903 during Q1 from \$19,595 during Q01. As a result, net income decreased from \$23,716 in Q01 to net income of \$1,712 in Q1.

Income (loss) per common share (both basic and diluted) was \$0.00 for Q1 and \$0.00 for Q01.

Changes in the registrant's liquidity and capital will depend mostly on continuing royalty fees received from franchisees using the registrant's trademark and restaurant concept. This in turn will be reflective of the general economies in the areas where Hudson's Grill restaurants are located. The registrant does not currently plan to raise any capital or borrow funds to meet liquidity needs, and thus, will rely solely on cash flows from operations.

The registrant is currently allocating most of its cash flow to pay off accounts payable; it plans to continue to do so until all of its past due debts are essentially paid off. This may take the next several years to accomplish. The Company's cash balance of \$15,937 at March 31, 2002, was \$7,957 less than at the year ended December 31, 2001.

The registrant does not sustain much seasonal volatility in revenues since its franchisees are dispersed geographically and climactically. Additionally, it does not have any material commitments for capital expenditures and doesn't plan any in the foreseeable future.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The registrant incorporates by reference its response in its Form 10-KSB filed with the Securities and Exchange Commission on March 29, 2002, and accepted by the Commission on March 29, 2002. Additionally, a trial was held in April 2002 involving the Company's former parent and regarding a former Hudson's Grill of America site left vacant at Lancaster, California. As of May 8, 2002, the court had not rendered a decision in that case. It is anticipated that this will not have an impact on the financial statements of the registrant.

Item 2. Changes in Securities.

There was an increase in securities and in the rights of the holders of the registrant's securities during Q1. The directors continued to receive each month options to purchase 10,000 shares of the registrant's stock, exercisable at \$.10 per share, and the president

continued to receive each month options for 50,000 shares. The president received options for 150,000 shares in Q1, and the directors, as a group, received options for 60,000 shares in Q1.

Item 3. Defaults Upon Senior Securities.

The registrant does not currently have any senior securities outstanding. Consequently, there are no defaults on senior securities.

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

No matters were submitted to a vote of security holders during Q1.

Item 5. Other Information.

The registrant does not have any material new information that has not already been disclosed in Forms 8-K, 10-QSB and 10-KSB.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibit Index. Following are the exhibits required under Item 601 of Regulation S-B for Form 10-QSB:

Exhibit No.	Description	Page Number
(2)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	n/a
(4)	Instruments Defining the Rights of Holders Including Indentures	n/a
(6)	No Exhibit Required	n/a
(11)	Statement Re: Computation of Per Share Earnings	n/a ¹
(12)	No Exhibit Required	n/a
(15)	Letter on Unaudited Interim Financial Information	n/a ²
(18)	Letter on Change in Accounting Principles	n/a
(19)	Previously Unfiled Documents	n/a
(20)	Reports Furnished to Security Holders	n/a
(23)	Published Report Regarding Matters Submitted to Vote	n/a
(24)	Consent of Experts and Counsel	n/a
(25)	Power of Attorney	n/a
(27)	Financial Data Schedule	n/a
(28)	Additional Exhibits	n/a

¹ No explanation of the computation of per share earnings on both the primary and fully diluted basis is necessary because the computation can be clearly determined from the

financial statements and the notes to the financial statements.

² No reports on unaudited interim financial information have been prepared by the Company's independent accountants, and therefore, no letter is required from the Company's independent accountants.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ending March 31, 2002, or shortly thereafter.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)
HUDSON'S GRILL INTERNATIONAL,
INC.

By: s/s David L. Osborn
David L. Osborn, President

Date: May 15, 2002

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HUDSON'S GRILL INTERNATIONAL, INC.

BALANCE SHEETS

ASSETS

	MARCH 31, 2002 (Unaudited)	DECEMBER 31, 2001
CURRENT ASSETS:		
Cash	\$ 15,937	\$ 23,894
Accounts receivable	13,953	22,313
Prepaid expenses and other	<u>9,974</u>	<u>9,993</u>
Total current assets	39,864	56,200
PROPERTY AND EQUIPMENT, at cost:		
Furniture and office equipment	15,813	15,813
Restaurant furniture and equipment	<u>23,416</u>	<u>23,416</u>
Total property and equipment	39,229	39,229
Less accumulated depreciation	<u>(35,642)</u>	<u>(33,959)</u>
Property and equipment, net	3,587	5,270
LONG-TERM RECEIVABLE, less current portion	<u>105,675</u>	<u>106,803</u>
Total assets	<u>\$ 149,126</u>	<u>\$ 168,273</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Line of credit	\$ 13,706	\$ 14,299
Loans payable	56,474	58,198
Accounts payable and accrued expenses	47,283	54,204
Accounts payable to related parties	93,252	99,612
Advances from related parties	<u>10,890</u>	<u>12,290</u>
Total current liabilities	221,605	238,603
DEFERRED REVENUE	130,323	134,184
CONTINGENCIES (Note 2 and 3)		
STOCKHOLDERS' DEFICIT:		
Common stock, Class A, no par value, 100,000,000 shares authorized, 7,256,986 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	142,545	142,545
Common stock, Class B, no par value, 15,000,000 shares authorized, no shares issued and outstanding	-	-
Additional paid-in capital	-	-
Accumulated deficit	<u>(345,347)</u>	<u>(347,059)</u>
Total stockholders' deficit	<u>(202,802)</u>	<u>(204,514)</u>
Total liabilities and stockholders' deficit	<u>\$ 149,126</u>	<u>\$ 168,273</u>

See accompanying notes to these financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED	
	MARCH 31,	MARCH 31,
	2002	2001
	(Unaudited)	(Unaudited)
REVENUE	\$ 64,852	\$ 77,467
OPERATING COSTS:		
General and administrative	73,360	71,663
Depreciation and amortization	<u>1,683</u>	<u>1,683</u>
Total operating costs	<u>75,043</u>	<u>73,346</u>
Income (loss) from operations	(10,191)	4,121
OTHER INCOME (EXPENSE):		
Settlement income	9,000	16,000
Income from sale of assets	1,215	2,422
Interest income	2,926	2,885
Interest expense	<u>(1,238)</u>	<u>(1,712)</u>
Total other income (expense)	<u>11,903</u>	<u>19,595</u>
NET INCOME	<u>\$ 1,712</u>	<u>\$ 23,716</u>
NET INCOME PER SHARE -		
basic and diluted	<u> *</u>	<u> *</u>
WEIGHTED AVERAGE COMMON		
SHARES OUTSTANDING –		
basic and diluted	<u>7,256,986</u>	<u>6,656,986</u>

*Less than \$.01 per share

See accompanying notes to these financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,712	\$ 23,716
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,683	1,683
Amortization of deferred revenue	(3,861)	(5,341)
Changes in operating assets and liabilities:		
Accounts receivable	8,360	(789)
Prepaid expenses and other	19	1,951
Accounts payable and accrued expenses	(6,921)	(24,104)
Accounts payable to related parties	<u>(6,360)</u>	<u>(4,000)</u>
Net cash used in operating activities	<u>(5,368)</u>	<u>(6,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -		
Repayment of note receivable	<u>1,128</u>	<u>3,639</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of advances from related parties	(1,400)	-
Repayment of line of credit and notes payable	<u>(2,317)</u>	<u>(1,847)</u>
Net cash used in financing activities	<u>(3,717)</u>	<u>(1,847)</u>
NET INCREASE (DECREASE) IN CASH	(7,957)	(5,092)
CASH, beginning of period	<u>23,894</u>	<u>21,054</u>
CASH, end of period	<u>\$ 15,937</u>	<u>\$ 15,962</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,200</u>	<u>\$ 1,700</u>

See accompanying notes to these financial statements

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

1. UNAUDITED INFORMATION

The balance sheet of Hudson's Grill International, Inc. (the "Company") as of March 31, 2002 and the statements of operations for the three-month periods ended March 31, 2002 and 2001 were taken from the Company's books and records without audit. However, in the opinion of management, such information includes all adjustments (consisting only of normal recurring accruals) which are necessary to properly reflect the financial position of the Company as of March 31, 2002 and the results of operations for the three months ended March 31, 2002 and 2001.

Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although management believes that the disclosures are adequate to make the information presented not misleading. Interim period results are not necessarily indicative of the results to be achieved for an entire year. These financial statements should be read in conjunction with the financial statements and notes to financial statements included in the Company's financial statements as filed on Form 10-KSB for the year ended December 31, 2001.

2. CONTINUING OPERATIONS

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has a working capital deficit of \$181,741 and a stockholders' deficit of \$202,802 as of March 31, 2002. These issues raise substantial doubt about the Company's ability to continue as a going concern. Management of the Company intends to continue to sell franchises in an attempt to improve operating results. Management also intends to use excess profits to pay down the Company's debts. There can be no degree of assurance that the Company will be successful in these efforts.

The accompanying financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or classification of liabilities which may result from the inability of the company to continue as a going concern.

3. CONTINGENCY

The Company's former Parent, Hudson's Grill of America, Inc. (the "Parent") is involved in litigation arising from a lease associated with a franchised restaurant location that has ceased operations. In addition, the Parent is secondarily liable under other leases for restaurants it sold in prior years. None of these restaurants, lease agreements or obligations were transferred to or assumed by the Company. The Company, based upon consultation with its legal counsel, is of the opinion that the Parent's actual and contingent obligations with respect to these leases will not ultimately be attributable to the Company, but that if a creditor obtained a judgment against the Parent, the Parent's stock in the Company could be subject to attachment or execution by the creditor. Accordingly, the Company believes these matters will not have a material adverse effect on the Company's financial condition or results of operations, and no provision for any estimated loss is reflected in the accompanying financial statements.

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

4. STOCK OPTIONS

The Company president's compensation includes the granting of stock options. Currently, the president is granted 50,000 stock options per month. The Company also grants 10,000 stock options per month to each of the two directors of the Company, as compensation for services as directors.

All options vest immediately, are issued with an exercise price of \$0.10, and expire seven years from the date of grant. The Company did not grant any stock options with an exercise price that was less than the fair market value at the date of grant during the period ended March 31, 2002.

5. EARNINGS PER SHARE

Basic earnings per share are calculated on the weighted average number of common shares outstanding during each period. No stock options exercisable at March 31, 2002 and 2001, had a dilutive effect on earnings per share.
