

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 June 30, 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 issuer 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 issuer's cash decreased to \$8,338 at June 30, 2002 ("Q2") from \$23,894 at December 31, 2001 ("FYE"). Due to the decreases in cash and some smaller decreases in accounts receivable and prepaid expenses, the current assets at Q2 decreased to \$37,346 from \$56,200 at FYE, which accounts for most of the decrease in total assets at Q2 to \$144,980 from \$168,273 at FYE. Some equipment was sold during Q2 that had been fully depreciated, and so restaurant equipment decreased by about the same as depreciation. Its other assets at Q2 were about the same when compared to FYE.

Accounts payable and accrued expenses materially decreased at Q2 to \$21,451 from \$54,204 at FYE. Loans payable decreased to \$45,000 at Q2 from \$58,198 at FYE. This reflects the continued progress the Company has made in reducing its loans payable and accounts payable. The issuer's other liabilities at Q2 were about the same when compared to FYE. The decrease resulted from debts being paid off from profits earned by the issuer since FYE. Thus, current liabilities decreased to \$181,585 at Q2 from \$238,603 at FYE.

Material changes in the results of operations of Q2 compared to the second quarter

of 2001 ("Q01") include the following. Revenues remained about the same when comparing Q2 to Q01. However, general and administrative expenses decreased during Q2 to \$54,181 from \$62,181 during Q01. As a result, income from operations increased to \$10,452 during Q2 from income of \$610 during Q01. Income from a gain from assets disposed increased during Q2 to \$18,000 from none in Q01. This reflects the sale of some equipment at the former Oxnard location. The issuer's other expenses during Q2 were about the same when compared to Q01, and consequently, its total other income increased to \$28,068 during Q2 from \$14,240 during Q01. Thus, income for Q2 increased to \$38,520 from \$14,850 in Q01.

Material changes in the results of operations for this year to date ("YTD02") compared to last year to date ("YTD01") include the following. Revenues decreased to \$131,778 during YTD02 from \$140,448 during YTD01. However, general and administrative expenses decreased during YTD02 to \$128,151 from \$132,286 during YTD01. As a result, income from operations slightly decreased to \$261 during YTD02 from \$4,756 during YTD01. A drop in settlement income from YTD01 to YTD02 was offset by an increase in gain from assets disposed, and as a result total other income increased to \$39,971 during YTD02 from \$33,835 in YTD01. With the slight decrease in income from operations during YTD02, the slight increase in total other income produced an increase in net income for YTD02 to \$40,232 from \$38,591 for YTD01.

Income (loss) per common share (both basic and diluted) was \$0.01 for Q2 and \$0.00 for Q01; and it was \$0.01 per share for both YTD01 and YTD02.

Changes in the issuer's liquidity and capital will depend mostly on continuing royalty fees received from franchisees using the issuer'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 issuer 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 issuer 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 \$8,338 at June 30, 2002, was \$15,556 less than at the year ended December 31, 2001.

The issuer 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 April 15, 2002, and accepted by the

Commission on April 15, 2002. The Company is not involved in any legal proceedings and knows of no matters that have been threatened against the Company.

Item 2. Changes in Securities.

There was a decrease in securities and in the rights of the holders of the registrant's securities during Q2. The directors decided to cancel options granted in 2002 that were exercisable at 10 cents. A total of 350,000 options that were already issued were canceled, and the monthly grant of 70,000 options was discontinued.

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.

At the annual meeting of stockholders held on May 24, 2002, the stockholders voted for three directors (Anthony Duncan, Robert Fischer and David Osborn) and for the appointment of Hein + Associates LLP to be the issuer's auditors. There were no other matters submitted to a vote of security holders during Q2.

Item 5. Other Information.

The registrant's Oxnard franchise closed at the end of April 2002, and the registrant's equipment that was on that premises was sold to the new tenants. Otherwise, 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. The following reports on Form 8-K were filed during the quarter ending June 30, 2002, or shortly thereafter:

1. Form 8-K filed July 25, 2002. The issuer announced that a new franchise agreement was signed for a new Hudson's restaurant to be located in Marshfield, Wisconsin.

SIGNATURES

I, David L. Osborn, the President of Hudson's Grill International, Inc., certify that: (i) this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Hudson's Grill International, Inc.

(Registrant)
HUDSON'S GRILL INTERNATIONAL,
INC.

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

Date: August 14, 2002

HUDSON'S GRILL INTERNATIONAL, INC.

BALANCE SHEETS

ASSETS

	JUNE 30, 2002 (Unaudited)	DECEMBER 2001
CURRENT ASSETS:		
Cash	\$ 8,338	\$ 23,894
Accounts receivable	18,619	22,313
Prepaid expenses and other	<u>10,389</u>	<u>9,993</u>
Total current assets	37,346	56,200
PROPERTY AND EQUIPMENT , at cost:		
Furniture and office equipment	17,868	15,813
Restaurant furniture and equipment	<u>-</u>	<u>23,416</u>
Total property and equipment	17,868	39,229
Less accumulated depreciation	<u>(15,909)</u>	<u>(33,959)</u>
Property and equipment, net	1,959	5,270
LONG-TERM RECEIVABLE	<u>105,675</u>	<u>106,803</u>
Total assets	<u>\$ 144,980</u>	<u>\$ 168,273</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Line of credit	\$ 13,092	\$ 14,299
Loans payable	45,000	58,198
Accounts payable and accrued expenses	21,451	54,204
Accounts payable to related parties	93,252	99,612
Advances from related parties	<u>8,790</u>	<u>12,290</u>
Total current liabilities	181,585	238,603
DEFERRED REVENUE	127,677	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 June 30, 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>(306,827)</u>	<u>(347,059)</u>
Total stockholders' deficit	<u>(164,282)</u>	<u>(204,514)</u>
Total liabilities and stockholders' deficit	<u>\$ 144,980</u>	<u>\$ 168,273</u>

See accompanying notes to these financial statements.

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002 (Unaudited)	JUNE 30, 2001 (Unaudited)	JUNE 30, 2002 (Unaudited)	JUNE 30, 2001 (Unaudited)
REVENUES	\$ 66,926	\$ 64,494	131,778	\$ 140,448
OPERATING COSTS:				
General and administrative	54,791	62,181	128,151	132,286
Depreciation and amortization	<u>1,683</u>	<u>1,703</u>	<u>3,366</u>	<u>3,406</u>
Total operating costs	<u>56,474</u>	<u>63,884</u>	<u>131,517</u>	<u>135,692</u>
Income from operations	10,452	610	261	4,756
OTHER INCOME (EXPENSE):				
Settlement income	9,000	9,000	18,000	25,000
Income from sale of assets	-	2,780	1,215	5,202
Gain from assets disposed	18,000	-	18,000	-
Interest income	1,854	3,951	4,780	6,836
Interest expense	<u>(786)</u>	<u>(1,491)</u>	<u>(2,024)</u>	<u>(3,203)</u>
Total other income (expense)	<u>28,068</u>	<u>14,240</u>	<u>39,971</u>	<u>33,835</u>
NET INCOME	<u>\$ 38,520</u>	<u>\$ 14,850</u>	<u>\$ 40,232</u>	<u>\$ 38,591</u>
NET INCOME PER SHARE				
(basic and diluted)	<u>\$.01</u>	<u>\$ *</u>	<u>\$.01</u>	<u>\$.01</u>
WEIGHTED AVERAGE SHARES OUTSTANDING –				
basic and diluted	<u>7,256,986</u>	<u>6,956,986</u>	<u>7,256,986</u>	<u>6,956,986</u>

*Less than \$.01 per share

See accompanying notes to these financial statements.

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30, 2002 (Unaudited)	2001 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 40,232	\$ 38,591
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,366	3,406
Amortization of deferred revenue	(6,507)	(10,985)
Gain from assets disposed	(18,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	3,694	(728)
Prepaid expenses and other	(396)	1,965
Accounts payable and accrued expenses	(32,753)	(33,452)
Accounts payable to related parties	<u>(6,360)</u>	<u>(7,800)</u>
Net cash used in operating activities	<u>(16,724)</u>	<u>(9,068)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of note receivable	1,128	7,725
Purchases of property and equipment	(2,055)	-
Proceeds from disposal of assets	<u>20,000</u>	<u>-</u>
Net cash provided by investing activities	19,073	7,725
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of advances from related parties	(3,500)	(1,400)
Repayment of line of credit and notes payable	<u>(14,405)</u>	<u>(3,762)</u>
Net cash used in financing activities	<u>(17,905)</u>	<u>(5,162)</u>
NET INCREASE (DECREASE) IN CASH	(15,556)	(6,505)
CASH, beginning of period	<u>23,894</u>	<u>21,054</u>
CASH, end of period	<u><u>\$ 8,338</u></u>	<u><u>\$ 14,549</u></u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u><u>\$ 2,000</u></u>	<u><u>\$ 3,200</u></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 June 30, 2002 and the statements of operations for the three-month and six-month periods ended June 30, 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 June 30, 2002 and the results of operations for the three and six months ended June 30, 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 \$144,239 and a stockholders' deficit of \$164,282 as of June 30, 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

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

provision for any estimated loss is reflected in the accompanying 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.

In May 2002, the directors decided to cancel stock options granted during 2002. A total of 350,000 stock options that were already granted were canceled, and the monthly grant of 70,000 stock options was discontinued.

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 June 30, 2002 and 2001, had a dilutive effect on earnings per share.

6. SUBSEQUENT EVENT

In July 2002, the Company received an initial franchise fee of \$15,000 in connection with a new restaurant to be opened in Marshfield, Wisconsin.
