

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 September 30, 2003

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.

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.

Balances as of September 30, 2003, Compared to December 31, 2002

The issuer's cash at September 30, 2003 ("Q3") (\$99,106), is \$52,939 more than it was at December 31, 2002 ("FYE") (\$46,167). This reflects reduced general and administrative expenses during the period since the last year end and the resulting profit

made during the year to date. Due to the increase in cash and some smaller changes in accounts receivable and prepaid expenses, the current assets at Q3 increased \$24,337 from the prior quarter to \$128,424 and increased \$49,751 from \$78,673 at FYE. Net property and equipment is roughly the same at Q3 as it was at FYE; long term receivable has decreased \$8,774 because of payments received since FYE in connection with the sale of a restaurant in 1995. Thus, total assets at Q3 increased by \$40,463 to \$223,850 from \$183,387 at FYE.

Current liabilities decreased by \$31,244 to \$109,603 at Q3 from \$140,847 at FYE. This reflects the continued progress the Company has made in paying off its line of credit, loan payable and accounts payable from the profits it has made during the period. Deferred revenue decreased slightly from \$107,552 at FYE to \$96,177 at Q3, reflecting the continued amortization of income deferred from the advance payment of royalties from certain franchisees and the gain deferred from the 1995 sale of a restaurant.

The Three Months Ended September 30, 2003, Compared to September 30, 2002

Material changes in the results of operations for the three months ended Q3 compared to the third quarter of 2002 ("Q02") include the following: Because of a one time, initial franchise fee of \$15,000 received in Q02 from the newly opened Hudson's franchisee in Marshfield, Wisconsin, which opened September 9, 2002, revenues were higher in Q02 than they were in Q3. Q3's revenue was \$74,068, which was a decrease of \$19,220 from Q02's revenues of \$93,288. Operating expenses decreased by \$9,339 during Q3 to \$55,366 from \$64,705 during Q02, mostly as a result of slightly higher travel expense associated with opening the Marshfield franchise in 2002. As a result, income from operations decreased by \$9,881 to \$18,702 during Q3 from \$28,583 during Q02. Other income stayed about the same; Q3 had other income of \$12,781 compared to other income of \$12,311 in Q02. Thus, because of the decrease in income from operations, net income in Q3 decreased by \$9,411 compared to Q02.

Income per common share (both basic and diluted) was less than \$.01 per share for Q3 and Q02.

The Nine Months Ended September 30, 2003, Compared to September 30, 2002

Material changes in the results of operations for the nine months ended September 30, 2003 ("YTD03"), compared to the same period in 2002 ("YTD02") include the following: There was an increase of \$12,161 in revenue attributable to the new franchise in Marshfield, Wisconsin (because it was open during all of YTD03) that was not sufficient to overcome decreases at the other franchises (most notably at Santa Barbara, California (closed in December 2002), and Jackson, Michigan), and thus revenues for YTD03 decreased by \$9,945 compared to YTD02. YTD03 operating expenses decreased by \$29,829 in YTD03 to \$166,393 from \$196,222 during YTD02, mostly as a result of a decrease in legal and accounting expenses. As a result, income from operations increased by \$19,884 to \$48,728 in YTD03 from \$28,844 during YTD02. Other income decreased by \$17,928 because of a one time gain of \$18,000 from assets disposed in YTD02, which did not recur in YTD03.

Thus, because the decrease in other income almost equaled the increase in income from operations, net income in YTD03 increased only slightly by \$1,956 compared to YTD02.

Income per common share (both basic and diluted) was \$.01 per share for YTD03 and for YTD02.

Liquidity and Capital Resources

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 a major part of its cash flow to pay off accounts payable; it plans to continue to do so until all of its past due debts are paid off. This may take the next several years to accomplish. The Company's cash balance of \$99,106 at September 30, 2003, was \$52,939 more than at the year ended December 31, 2002.

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.

Item 3. Disclosures: Controls and Procedures.

With the participation of management, the Company's President evaluated the Company's disclosure controls and procedures as of the end of the quarterly period covered by this report. Based on this evaluation, the President concluded that the disclosure controls and procedures are effective in connection with the Company's filing of its quarterly report on Form 10-QSB for this quarterly period.

Subsequent to the date of the president's evaluation, through the date of this filing of Form 10-QSB for this quarterly period, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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 no change in securities during the quarter ending September 30, 2003.

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.

There were no matters submitted to a vote of security holders during Q3.

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
(32.1)	Certification Pursuant to Sarbanes-Oxley Act Sec. 906	8

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 September 30, 2003, or shortly thereafter.

SIGNATURES

I, David L. Osborn, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Hudson's Grill International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the quarter presented in this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2003

/s/David L. Osborn

[Signature]

President

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT
OF 2002

In connection with the Quarterly Report of Hudson's Grill International, Inc., (the "Company") on Form 10-QSB for the period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Osborn, the President of Hudson's Grill International, Inc., certify that:

(i) The 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

(Registrant)
HUDSON'S GRILL INTERNATIONAL,
INC.

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

Date: November 12, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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HUDSON'S GRILL INTERNATIONAL, INC.

BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 2003 (Unaudited)	DECEMBER 31, 2002
CURRENT ASSETS:		
Cash	\$ 99,106	\$ 46,167
Accounts receivable	17,574	22,371
Prepaid expenses and other	<u>11,744</u>	<u>10,135</u>
Total current assets	128,424	78,673
 PROPERTY AND EQUIPMENT , at cost:		
Furniture and office equipment	17,869	17,869
Less accumulated depreciation	<u>(16,671)</u>	<u>(16,157)</u>
Property and equipment, net	1,198	1,712
 LONG-TERM RECEIVABLE	<u>94,228</u>	<u>103,002</u>
 Total assets	<u>\$ 223,850</u>	<u>\$ 183,387</u>

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Line of credit	\$ -	\$ 9,037
Loans payable	41,000	45,000
Accounts payable and accrued expenses	14,651	10,068
Accounts payable to related parties	53,952	76,452
Advances from related parties	<u>-</u>	<u>290</u>
Total current liabilities	109,603	140,847
 DEFERRED REVENUE	96,177	107,552
 STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, Class A, no par value, 100,000,000 shares authorized; 7,256,986 shares issued and outstanding	142,545	142,545
Common stock, Class B, no par value, 15,000,000 shares authorized; no shares issued and outstanding	-	-
Accumulated deficit	<u>(124,475)</u>	<u>(207,557)</u>
Total stockholders' equity (deficit)	<u>18,070</u>	<u>(65,012)</u>
 Total liabilities and stockholders' equity (deficit)	<u>\$ 223,850</u>	<u>\$ 183,387</u>

See accompanying notes to these financial statements.

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF INCOME
(unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2003	SEPTEMBER 30, 2002	SEPTEMBER 30, 2003	SEPTEMBER 30, 2002
REVENUES	\$ 74,068	\$ 93,288	\$ 215,121	\$ 225,066
OPERATING COSTS:				
General and administrative	55,195	63,826	165,879	191,977
Depreciation and amortization	<u>171</u>	<u>879</u>	<u>514</u>	<u>4,245</u>
Total operating costs	<u>55,366</u>	<u>64,705</u>	<u>166,393</u>	<u>196,222</u>
Income from operations	18,702	28,583	48,728	28,844
OTHER INCOME (EXPENSE):				
Settlement income	9,000	9,000	27,000	27,000
Income from sale of assets	2,266	1,971	5,969	3,186
Gain from assets disposed	-	-	-	18,000
Interest income	1,515	1,997	4,164	6,777
Interest expense	-	(657)	(1,774)	(2,681)
Miscellaneous expenses	<u>-</u>	<u>-</u>	<u>(1,005)</u>	<u>-</u>
Total other income (expense)	<u>12,781</u>	<u>12,311</u>	<u>34,354</u>	<u>52,282</u>
NET INCOME	<u>\$ 31,483</u>	<u>\$ 40,894</u>	<u>\$ 83,082</u>	<u>\$ 81,126</u>
NET INCOME PER SHARE -				
basic and diluted	<u>*</u>	<u>*</u>	<u>.01</u>	<u>.01</u>
WEIGHTED AVERAGE				
OUTSTANDING SHARES -				
basic and diluted	<u>7,256,986</u>	<u>7,256,986</u>	<u>7,256,986</u>	<u>7,256,986</u>

*Less than \$.01 per share

See accompanying notes to these financial statements.

HUDSON'S GRILL INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 83,082	\$ 81,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	514	4,245
Amortization of deferred revenue	(11,375)	(11,124)
Gain from assets disposed	-	(18,000)
Changes in operating assets and liabilities:		
Accounts receivable	4,797	(2,225)
Prepaid expenses and other	(1,609)	(173)
Accounts payable and accrued expenses	4,583	(33,464)
Accounts payable to related parties	<u>(22,790)</u>	<u>(15,660)</u>
Net cash provided by operating activities	<u>57,202</u>	<u>4,725</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of note receivable	8,774	3,801
Purchases of property and equipment	-	(2,055)
Proceeds from disposal of assets	<u>-</u>	<u>20,000</u>
Net cash provided by investing activities	<u>8,774</u>	<u>21,746</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of advances from related parties	(4,000)	(9,000)
Repayment of line of credit and notes payable	<u>(9,037)</u>	<u>(16,183)</u>
Net cash used in financing activities	<u>(13,037)</u>	<u>(25,183)</u>
NET INCREASE IN CASH	52,939	1,288
CASH, beginning of period	<u>46,167</u>	<u>23,894</u>
CASH, end of period	<u>\$ 99,106</u>	<u>\$ 25,182</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 September 30, 2003 and the income statements for the three and nine month periods ended September 30, 2003 and 2002 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 September 30, 2003 and the results of operations for the three and nine months ended September 30, 2003 and 2002.

Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles 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, 2002.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement 123* ("SFAS 148"). SFAS 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS 123"), to provide alternative transition methods for an entity's voluntary change in their accounting for stock-based compensation from the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB No. 25") and related interpretations to the fair value method under SFAS 123. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require disclosure of the pro forma effects of using the fair value method of accounting for stock-based compensation in interim as well as annual financial statements. The Company currently accounts for its stock-based compensation using the intrinsic value method as prescribed by APB No. 25. The disclosure provisions of SFAS No. 148 were adopted on December 31, 2002 and are discussed in Note 2.

2. STOCK OPTIONS

The Company president's compensation includes stock option grants. Formerly, the president was granted 50,000 stock options per month. Effective July 1, 2003, the number of stock options granted to the president was reduced to 18,000 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 are fully vested when granted and expire in seven years.

The Company accounts for stock options granted to its directors and employees using the intrinsic value method prescribed by APB No. 25 which requires compensation expense be recognized for stock options when the quoted market price of the Company's common stock on the date of grant exceeds the option's exercise price. No compensation cost has been reflected in net income for the granting of director and employee stock options as all options granted had an exercise price greater than the quoted market price of the Company's common stock on the date the options were granted.

HUDSON'S GRILL INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

Had compensation cost for the Company's stock options been determined consistent with the SFAS 123 fair value approach, the Company's net income and net income per common share for the three and nine-month periods ended September 30, 2003 and 2002, on a pro forma basis, would have been as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
Net income: as reported	\$ 31,483	\$ 40,894	\$ 83,082	\$ 81,126
Add: Stock-based compensation expense included in reported net income	-	-	-	-
Deduct: Stock-based compensation expense determined under fair value method	(646)	(965)	(2,669)	(2,895)
Net income: pro forma	\$ 30,837	\$ 39,929	\$ 80,413	\$ 78,231
Net income per share:				
as reported – basic and diluted	\$ *	\$ *	\$.01	\$.01
Pro forma – basic and diluted	\$ *	\$ *	\$.01	\$.01

* Less than \$.01 per share

The fair values of stock options granted during fiscal years 2003 and 2002 were estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2002
Volatility	50%	50%
Interest rate	3.75%	4.00%
Dividend yield	- %	- %
Expected life	7 years	7 years

3. CONTINGENCY

The Company's former parent, Hudson's Grill of America, Inc. ("HGAI") was involved in litigation arising from a lease associated with a franchised restaurant location that has ceased operations. In addition, HGAI 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 former 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 former parent, stock in the Company formerly held by HGAI could be subject to attachment or execution by the creditor under certain limited circumstances. 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. 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 September 30, 2003 and 2002, had a dilutive effect on earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been anti-dilutive.
