

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1998-05-19** | Period of Report: **1998-03-31**  
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### FILER

#### **COUNTRY STAR RESTAURANTS INC**

CIK: **911220** | IRS No.: **621536550** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-23136** | Film No.: **98628217**  
SIC: **5812** Eating places

Mailing Address  
*C/O WOLF HALDENSTEIN  
ADLER FREEMAN &HERZ  
270 MADISON AVE  
LOS ANGELES CA 90010*

Business Address  
*4929 WILSHIRE BOULEVARD  
270 MADISON AVE  
LOS ANGELES CA 90010  
3102682200*

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 1998

OR

TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0 - 23136

COUNTRY STAR RESTAURANTS, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

62-1536550

-----  
(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

4929 WILSHIRE BOULEVARD,

SUITE # 428, LOS ANGELES, CA 90025

(Address of Principal Executive  
Offices) (Zip Code)

(213) 634-5588

-----  
(Registrant's telephone number, including area code)

Not Applicable

-----  
(Former name, former address, and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 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 [X] No [ ]

The number of shares of common stock outstanding as of May 14, 1998: 9,004,293

COUNTRY STAR RESTAURANTS, INC.

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COUNTRY STAR RESTAURANTS, INC.

Condensed Balance Sheet  
 March 31, 1998  
 (Unaudited)

<TABLE>  
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ASSETS	<C>
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CURRENT ASSETS:	
Cash and cash equivalents	\$ 144,943
Inventories	183,194
Other	223,314
	-----
TOTAL CURRENT ASSETS	551,451
	-----
PROPERTY AND EQUIPMENT AT COST, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION OF \$861,758:	
Leasehold improvements	3,374,062
Furniture and equipment	1,321,952
Memorabilia	345,507
	-----
TOTAL PROPERTY AND EQUIPMENT	5,041,521
OTHER	263,925
	-----
	\$ 5,856,897
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Line of credit	\$ 1,750,000
Accounts payable	513,997
Accrued legal settlements	332,000
Accrued salaries	100,000
Other accrued expenses	253,217
	-----
TOTAL CURRENT LIABILITIES	2,949,214
	-----
STOCKHOLDERS' EQUITY:	
PREFERRED STOCK, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	--
	-----
COMMON STOCK, \$0.01 par value, 250,000,000 shares authorized, 9,004,293 shares issued and outstanding	90,043
ADDITIONAL PAID-IN CAPITAL	47,719,927
ACCUMULATED DEFICIT	(44,902,287)
	-----
NET STOCKHOLDERS' EQUITY	2,907,683

</TABLE>

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

COUNTRY STAR RESTAURANTS, INC.

Condensed Statements of Operations  
(Unaudited)

<TABLE>

<CAPTION>

	For The Quarter Ended March 31,	
	1998	1997
<S>	<C>	<C>
<b>REVENUES:</b>		
Food and beverage	\$ 845,778	\$ 2,027,617
Merchandise	43,482	236,858
	889,260	2,264,475
<b>COST AND EXPENSES:</b>		
Cost of revenues:		
Food and beverage	293,532	730,615
Merchandise	39,492	189,821
Labor	453,599	940,143
Rent	81,629	676,175
Other restaurant operating	187,064	476,074
Selling, general and administrative	547,813	1,401,356
Depreciation and amortization	148,349	385,522
	1,751,478	4,799,706
<b>LOSS FROM OPERATIONS</b>	(862,218)	(2,535,231)
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	--	2,447
Interest expense	(30,876)	(70,204)
Embedded interest expense	(212,500)	(1,009,662)
	(243,376)	(1,077,419)
<b>LOSS BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM</b>	(1,105,594)	(3,612,650)

MINORITY INTEREST	--	413,050
	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM	(1,105,594)	(3,199,600)
EXTRAORDINARY ITEM - SETTLEMENT OF NOTES PAYABLE, NET OF 0 TAXES	1,527,890	--
	-----	-----
NET INCOME (LOSS)	\$ 422,296	\$ (3,199,600)
	=====	=====
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE:		
Loss before extraordinary item	\$ (0.13)	\$ (2.18)
Extraordinary item	0.18	--
	-----	-----
Net income (loss) per common share	\$ 0.05	\$ (2.18)
	=====	=====
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	8,493,113	1,470,800
	=====	=====

</TABLE>

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

4

<TABLE>  
<CAPTION>

COUNTRY STAR RESTAURANTS, INC.

Condensed Statements of Cash Flows  
(Unaudited)

	For The Quarter Ended March 31,	
	1998	1997
	-----	-----
<S>	<C>	<C>
NET CASH USED IN OPERATING ACTIVITIES	\$ (623,902)	\$ (996,175)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	--	--
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	850,000	500,000

Payment of note payable	(1,300,000)	--
Net proceeds from issuance of common and preferred stock	--	7,857
Capital lease payments	--	(35,526)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(450,000)	472,331
	-----	-----
Net decrease in cash	(1,073,902)	(523,844)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,218,845	949,205
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 144,943	\$ 425,361
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Common stock issued upon Conversion of Debt	\$ 150,000	--
Common stock issued upon extinguishment of Debt	\$ 167,500	--
Embedded interest relating to Convertible Debt	\$ 212,500	\$ 1,009,662

The accompanying notes are an integral part of these financial statements.  
</TABLE>

COUNTRY STAR RESTAURANTS, INC.

Notes to Condensed Financial Statements  
(Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of Country Star Restaurants, Inc. have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission.

The information furnished herein reflects all adjustments, consisting of only normal recurring accruals and adjustments which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The notes to the condensed financial statements should be read in conjunction with the notes to the consolidated financial statements

contained in the Company's Form 10-KSB for the year ended December 31, 1997. Company management believes that the disclosures are sufficient for interim financial reporting purposes.

NOTE B - EMBEDDED INTEREST EXPENSE

Under the terms of line of credit agreement, amounts advanced may be converted to common stock at the lesser of (i) \$13.30, or (ii) 80% of the average closing bid price of the common stock for the five consecutive trading days preceding the date of conversion. Accordingly, the Company records embedded interest expense for advances made under the line of credit. For the three months ended March 31, 1998, the Company recorded \$212.5 thousand of net embedded interest expense relating to these advances.

NOTE C - EXTRAORDINARY ITEM

During the three months ended March 31, 1998, the Company recorded an extraordinary gain of \$1.53 million on the extinguishment of its \$2,995,358 note payable to Cameron Capital.

Under the terms of the Settlement Agreement dated February 18, 1998, Cameron agreed to dismiss its legal action against the Company and to accept as payment in full of its unconverted debt \$1.3 million cash and 670 thousand shares of the Company's common stock with a market value of \$167,500. Cameron does not have any registration rights with respect to the common stock, but is eligible to resell certain amounts immediately pursuant to the provisions of Rule 144 under the Securities Act of 1933.

The Company funded Cameron's settlement with an advance on the Company's \$3.5 million line of credit. The Company also issued to the lender warrants to acquire 43,333 shares of the Company's common stock at an exercise price of \$6.25 per share. No value was assigned to these warrants. The Company has recorded \$212.5 thousand as additional paid-in capital for the discount related to the embedded interest in the line of credit advances and fully amortized the expense on February 18, 1998.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Three months ended March 31, 1998 compared to three months ended March 31, 1997

Revenues.

Total revenues decreased to \$889 thousand for the three months ended March 31, 1998, compared with \$2.264 million for the three months ended March 31, 1997, a decrease of \$1.375 million or 60%, partially due to the closing of Country Star Atlanta. Same store revenues decreased 49% in Hollywood and 62% in Las Vegas. The decreases were due to the Company's limited advertising budget and customer resistance to changes in food preparation and presentation. Steps are being taken which management believes will increase sales at each restaurant.

Costs and expenses.

Cost of revenues decreased from \$920 thousand for the three months ended March 31, 1997 to \$333 thousand for the three months ended March 31, 1998. Cost of revenues as a percentage of revenues decreased from 41% to 37% primarily due to the new plans and policies implemented by management.

Operating expenses decreased from \$2.092 million for the three months ended March 31, 1997 to \$722 thousand for the three months ended March 31, 1998. As a percentage of revenues, operating expenses decreased from 92% to 81% primarily due to the new plans and policies implemented by management.

General and administrative expenses decreased from \$1.401 million for the three months ended March 31, 1997 to 548 thousand for the three months ended March 31, 1998. As a percentage of revenues, general and administrative expenses were 62% of revenues for both periods.

Depreciation and amortization decreased from \$386 thousand for the three months ended March 31, 1997 to \$148 thousand for the three months ended March 31, 1998, reflecting the decrease in the number of restaurants from three to two. As a percentage of total revenues, depreciation and amortization were 17% of revenues for both periods.

Interest expense decreased from \$1.080 million to \$243 thousand, reflecting primarily the embedded interest expense associated with the convertible debt financing arrangements entered into on February 12, 1997.

(continued)

Minority interest for the three months ended March 31, 1997 reflected the Company's controlling interest of 50.05% in Country Star Las Vegas LLC triggered by the opening of the Las Vegas facility in July, 1996. The Company sold its interest in Country Star Las Vegas LLC on December 30, 1997, and entered into a new lease agreement directly between the Company and the landlord. The Company is obligated to pay base rent of 50% of monthly positive cash flow. During the three months ended March 31, 1998, the Las Vegas location did not generate positive cash flow and, therefore, no rental payments were made.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by financing activities for the three months ended March 31, 1997 and used in the three months ended March 31, 1998 were \$472 thousand and \$450 thousand respectively, due to the borrowing and repayments of the convertible debts in 1997 and 1998.

Net cash used in operating activities for the three months ended March 31, 1997 and March 31, 1998 decreased from \$996 thousand to \$624 thousand due primarily to the extraordinary gain of \$1.5 million in 1998.

The Company will need to raise additional capital before it can attain profitability from operations. Management believes it can raise this capital through private placements of equity and the granting by lenders of discretionary advances under outstanding lines of credit.

#### COUNTRY STAR RESTAURANTS, INC.

#### PART II

#### OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES

On February 12, 1998 the Company effected a one for ten reverse common stock split. Accordingly, all references to numbers of common shares, except shares authorized, and to per share information in the financial statements have been adjusted to reflect the reverse stock split on a retroactive basis.

On January 31, 1998 the Company's Convertible Debentures issued in October 1997 for \$150,000 were automatically converted into 461,538 common shares in accordance with their terms.

On February 18, 1998, the Company issued 670,000 shares of Common Stock to Cameron Capital Ltd. under a Settlement Agreement relating to settlement of the Company's long term debt obligation to Cameron and warrants to acquire 43,333 shares of the Company's Common Stock at an exercise price of \$6.25 per share to an institutional lender in connection with the settlement.

The issuance of the warrants and of the Common Stock was exempt from registration pursuant to Section 4 (2) of the Securities Act of 1933, as amended.

On March 10, 1998 the National Association of Securities Dealers, Inc. (the "NASD") delisted the Company's securities from the NASDAQ National Market because of the Company's failure to meet listing requirements concerning minimum bid price and market value of public float and advised the Company its securities may be eligible to trade on the OTC Bulletin Board. The Company will take all actions reasonably necessary for there to be an active trading market for its outstanding Common Stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits None
- (b) Reports on Form 8-K

On January 20, 1998, the Company filed a Current Report on Form 8-K on the sale of its interest in the restaurant operations of the Company's Las Vegas, Nevada restaurant and entering into a new lease of the restaurant directly to the Company.

COUNTRY STAR RESTAURANTS, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly authorized and caused the undersigned to sign this Report on the Registrant's behalf.

COUNTRY STAR RESTAURANTS, INC.

By: /s/ DAN J. RUBIN

-----  
Dan J. Rubin  
Chief Executive Officer, President, and  
Chairman of the Board

Dated: May 19, 1998

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