

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: **1996-11-14** | Period of Report: **1996-09-30**  
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FILER

**QUIZNOS CORP**

CIK: **915803** | IRS No.: **841169286** | State of Incorpor.: **CO** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-23174** | Film No.: **96666776**  
SIC: **6794** Patent owners & lessors

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

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 1996

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission File Number 000-23174

THE QUIZNO'S CORPORATION

Colorado 84-1169286

7555 East Hampden Avenue, Suite 601  
Denver, Colorado 80231

Registrants' Telephone Number Is (303) 368-9424

Check whether issuer (1) has 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 X No

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

			Outstanding at	
			Class	
November 8, 1996				
Common	Stock,	\$0.001	par	value
2,864,757	shares			

THE QUIZNO'S CORPORATION

Commission File Number: 000-23174

Quarter Ended September 30, 1996

FORM 10-QSB

Part I FINANCIAL INFORMATION

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THE QUIZNO'S CORPORATION

STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
REVENUE:				
Royalty fees	\$ 424,349	\$ 296,110	\$ 1,138,570	\$ 759,838

Initial franchise fees	338,000	215,000	835,500	390,000
Area director marketing fees	210,382	311,325	1,098,037	758,423
Sales by Company owned stores	770,895	854,000	2,108,145	2,305,805
Sales by stores held for resale	--	--	20,572	142,525
Interest Income	33,113	32,607	116,662	118,495
Other	66,286	39,413	181,924	137,557
	1,843,025	1,748,455	5,499,410	4,612,643

EXPENSES:

Sales and royalty commissions	235,403	80,979	594,591	161,492
Advertising and promotion	105,779	34,059	269,565	51,216
General and administrative expenses	944,119	686,658	2,644,552	1,887,737
Cost of sales at Company stores	274,980	281,267	753,054	764,139
Cost of labor at Company stores	230,570	283,709	618,273	821,226
Other Company store expenses	211,723	279,810	656,418	764,891
Stores held for resale expenses	--	--	39,361	227,963
Other	16,301	--	88,918	--
Depreciation and amortization	71,861	50,111	211,433	160,987
Interest expense	17,420	25,143	56,078	89,824
Provision for loss on stores held for resale	--	--	--	--
	2,108,156	1,721,733	5,932,243	4,929,475
Net income (loss)	(265,131)	26,719	(432,833)	(316,832)
Preferred stock dividends	(14,235)	(14,235)	(42,705)	(42,705)
Net income (loss) applicable to common shareholders	\$ (279,366)	\$ 12,484	\$ (475,538)	\$ (359,537)
Net income (loss) per share of common stock	\$ (0.10)	\$ 0.00	\$ (0.17)	\$ (0.13)
Weighted average common shares outstanding	2,864,757	2,863,748	2,864,757	2,863,130

THE QUIZNO'S CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>

<CAPTION>

September 30,      December 31,  
1996                      1995

<S>

<C>

<C>

CURRENT ASSETS:

Cash and cash equivalents	\$ 445,739	\$ 1,684,422
Restricted cash	16,544	15,927
Current portion of notes receivable	444,005	304,918
Accounts receivable, net of allowance for doubtful accounts of \$17,200 in 1996 and \$11,777 in 1995	286,966	276,522
Other current assets	228,387	155,973
Assets of stores held for resale	--	144,499
Total current assets	1,421,641	2,582,261

Property and equipment, at cost, net of accumulated depreciation and amortization of \$159,963 in 1996 and \$144,561 in 1995	1,595,331	1,083,476
--	-----------	-----------

OTHER ASSETS:

Intangible assets, net of accumulated amortization of \$517,996 in 1996 and \$414,500 in 1995	523,097	537,149
Deferred assets	547,992	588,051
Deposits	47,088	31,454
Notes receivable	744,095	528,484
Total other assets	1,862,272	1,685,138
	\$ 4,879,244	\$ 5,350,875

</TABLE>

(continued on next page)

THE QUIZNO'S CORPORATION

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	September 30, 1996	December 31, 1995
	<C>	<C>
<S>		
CURRENT LIABILITIES:		
Accounts payable	\$ 459,646	\$ 713,446
Accrued liabilities	64,084	53,168
Line of credit and notes payable	260,000	160,000
Current portion of long term obligations	207,228	171,217
Provision for loss on stores sold	8,988	58,000
Total current liabilities	999,946	1,155,831

Line of credit	140,502	215,505
Long term obligations	243,701	341,453
Other liabilities	2,226	12,101
Deferred initial franchise fees	1,651,577	1,309,155
Total liabilities	3,037,952	3,034,045

STOCKHOLDERS' EQUITY:

Preferred stock, \$.001 par value, liquidation value of \$6 per share plus unpaid and accumulated dividends, 1,000,000 authorized, issued and outstanding 146,000 in 1996 and in 1995	146	146
Common stock, \$.001 par value, 9,000,000 shares authorized, issued and outstanding 2,864,757 in 1996 and 2,864,757 in 1995	2,865	2,865
Capital in excess of par value	3,247,650	3,290,355
Accumulated deficit	(1,409,369)	(976,536)
Total stockholders' equity	1,841,292	2,316,830
	\$ 4,879,244	\$ 5,350,875

</TABLE>

THE QUIZNO'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

	Nine Months Ended	
	September 30,	
	1996	1995
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss		\$ (432,833)
\$ (316,832)		
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	211,436	160,987
Provision for losses on accounts receivable		6,300
4,977		
Reserve for losses on stores sold	(49,012)	(43,226)
Promissory notes accepted for area director fees		(157,494)
(252,595)		
Changes in assets and liabilities:		
Restricted cash	(617)	(1,140)
Accounts receivable	(80,291)	(147,416)
Other current assets	(72,413)	(36,048)
Accounts payable	28,387	233,857
Accrued liabilities	10,915	20,598
Deferred franchise costs	(242,128)	(63,592)
Deferred initial franchise fees		342,422
		238

,408									
		Other							(9,876)
(2,600)									
	Net	cash	used	by	operating	activities	(445,204)		(20
4,622)									

CASH FLOWS FROM INVESTING ACTIVITIES:

	Purchase of property and equipment	(204,737)		(721,510)	
	Purchase of Company owned stores	(353,589)		--	
	Proceeds from sales of stores held for resale				--
15,000					
	Acceptance of notes receivable	(416,693)		(134,205)	
	Principal payments received on notes receivable				283,036
61,403					
	Intangible assets	(9,214)		(20,445)	
	Change in deposits	(12,834)		5,298	
	Investment in stores under development				--
(74,975)					
	Net cash used in investing activities			(714,031)	(86
9,434)					

</TABLE>

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THE QUIZNO'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued from previous page)

<TABLE>

<CAPTION>

	Nine Months Ended June 30,	
	1996	1995
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	\$	239,510
25,996		
Principle payments on long term obligations		(91,250)
(347,672)		
Principle payments on lines of credit	(185,003)	(50,000)
Proceeds from issuance of common stock	--	--
Dividends paid	(42,705)	(42,705)
Net cash used in financing activities		(79,448)
(414,381)		
Net decrease in cash	(1,238,683)	(1,488,437)

Cash, beginning of period	1,684,422	3,112,575
Cash, end of period	\$ 445,739	\$ 1,624,138

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 56,078	\$ 89,824
--	-----------	-----------

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the third quarter of 1996, the Company purchased two Company owned restaurants from franchisees for cash and a promissory note. The acquisitions were accounted for as follows:

<TABLE>

<CAPTION>

<S>	<C>	
Inventory	\$ 4,546	
Equipment	80,000	
Leasehold improvements	192,200	
Security deposits	2,800	
Goodwill	65,454	
Other		8,589
Total		353,589
Cash paid	(148,589)	
Promissory note due in 4th quarter, 1996	\$ 205,000	

</TABLE>

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THE QUIZNO'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued from previous page)

During the first quarter of 1996, the Company subleased a Company owned restaurant and granted the sublessee an option to purchase the restaurant through December 31, 1996 for \$135,000. During the first quarter of 1996, the assets of the restaurant were reclassified from Assets of Stores Held for Resale to Property and Equipment, and written down to the amount of the option price, with the loss, which had been accrued at December 31, 1995, charged to Provision for Loss on Stores Held for Resale.

During the first quarter of 1995, the Company issued 2,500 shares of its \$.001 par value common stock to Berger



Restaurant Corporation in exchange for the general partner's interest in Quiz One Limited Partnership owned by Berger Restaurant Corporation. The shares and the general partner's interest were valued at \$10,000.

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THE QUIZNO'S CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

Accumulated Capital	Convertible Preferred Stock		Common Stock		Additional Paid-In	
	Shares	Amount	Shares	Amount	Deficit	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at January 1, 1995	146,000	\$ 2,860,000	146	\$ 2,860,000	3,339,495	\$ (684,964)
Issuance of common stock in exchange for general partnership interest--	--	2,500	3	9,997	--	--
Purchase price paid for Quiz One Limited Partnership general partner's interest over historical book value (goodwill)	--	--	--	(10,000)	--	--
Issuance of common stock pursuant to employee benefit plan	--	2,257	2	7,803	--	--
Preferred stock dividends--	--	--	--	(56,940)	--	--
Net loss	--	--	--	--	--	--

(291,572)

Balances at December 31, 1995					
	146,000	1462,864,757	2,865	3,290,355	(976,536)
Preferred stock dividends--	--	--	--	(42,705)	--
Net loss	--	--	--	--	--
--	(432,833)				
Balances at Sept. 30, 1996	146,000\$	146 2,864,757	\$ 2,865\$	3,247,650	
\$ (1,409,369)					

</TABLE>

## THE QUIZNO'S CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of consolidated operations for the three and nine month periods ended September 30, 1996 and September 30, 1995, (b) the consolidated financial position at September 30, 1996, (c) the statements of cash flows for the nine month periods ended September 30, 1996 and September 30, 1995, and (d) the consolidated changes in stockholders' equity for the nine month period ended September 30, 1996, have been made.

2. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 1995, included in the Company's Annual Report on Form 10-KSB to the Securities and Exchange Commission filed on March 29, 1996.

3. The results for the three and nine month periods ended September 30, 1996 are not necessarily indicative of the results for the entire fiscal year of 1996.

#### 4. RELATED PARTY TRANSACTIONS

In 1995, the Company sold the Detroit area directorship to

Michigan Restaurant Development Corp., which is 100% owned by a director and major stockholder of the Company, for \$150,000 paid in cash.

Two directors of the Company, one of whom is a major stockholder, own more than 50% of the outstanding shares of Illinois Food Managers, Inc, which owns the Chicago area directorship and owned two operating franchises in Chicago, one of which was sold to an unrelated franchisee in June of 1996, and one which was closed in September, 1996.

Two directors and major stockholders of the Company own 55% of SK Food Services Corporation, which was a franchisee until such franchise was sold in October, 1995.

Two directors and major stockholders of the Company loaned Schaden & Schaden, Inc. (Schaden) \$99,243 in 1991 and another \$62,000 in 1994 under notes payable agreements. The notes were assumed by the Company when it acquired Schaden in 1994.

THE QUIZNO'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Summarized below is a recap of related party transactions included in the financial statements as of September 30:

<TABLE>  
<CAPTION>

	1996	1995	
	<C>	<C>	
Assets			
Accounts receivable	\$34,116	\$ 56,694	
Current portion			of notes receivable
24,336 8,628			
Notes receivable	46,224	19,832	
Liabilities			
Current portion of long term obligations	7,172	36,203	
Long term obligations	3,161	13,035	
Revenue			
Royalty fees			16,773
43,750			
Interest income	4,172	2,773	
Other income			7,950

22,050

Expenses				
36,783	Sales	and	royalty	commissions
				41,472
	Preferred stock dividend		42,705	42,705

</TABLE>

## 5. LITIGATION

On May 24, 1996, an area director filed suit against the Company seeking damages in connection with the termination of their area director agreement. The Company denies all claims and is vigorously defending this action. The case has not yet reached the discovery stage and the Company has not been able to assess all merits of the area director's claims, but, based on the information available at this time, Management believes the resolution of this matter will not have a material adverse effect on the financial condition of the Company.

### THE QUIZNO'S CORPORATION

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

##### Overview

At the current time, one time fees from the sale of area directorships continue to represent a substantial portion of the Company's revenue and can materially effect the net income of the Company from quarter to quarter. These fees have historically varied materially from quarter to quarter. The goal of the Company is to continue to build its revenue stream from royalties and franchise fees which ultimately will become the largest part of the Company's revenue. In the third quarter of 1996, the Company focused its resources on both franchise sales and openings, and achieved record results. A record 92 new franchises were sold for \$550,750, a record 19 new franchises opened resulting in the recognition of a record \$338,000 in initial franchise fees, and the Company's continuing royalty revenue stream reached a record \$424,349. The Company will continue to focus primarily on rapidly building its royalty stream and its initial fee revenue by focussing on rapidly developing franchised units.

As described above, The Company's primary business, and the focus of its organizational structure, continues to be franchising QUIZNO'S restaurants. As a franchisor, revenue is derived from:

(1) area director marketing fees, (2) initial franchise fees, and (3) royalties paid by franchisees. Area director fees occur only once for each exclusive area sold. Although the Company believes there are a substantial number of markets remaining to be sold, eventually such fees are expected to decline as the number of available remaining markets declines. Initial franchise fees are one time fees paid upon the sale of a franchise and vary directly with the number of franchises the Company can sell and open. Royalties, on the other hand, are ongoing fees paid by every franchised restaurant and will increase as the number of franchised restaurants increase. Each of these sources of revenue contributes to the profitability of the Company, but the relative contribution of each source will vary as the Company matures. The Company expects that over time initial franchise fees and royalties will generate proportionally more revenue than area director marketing fees.

The following chart reflects the Company's growth in terms of units, franchise sales, and systemwide sales.

THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

<TABLE>  
<CAPTION>

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Restaurants open, beginning	128	81	105	66
New restaurants opened			19	13
Restaurants closed			(4)	(5)
Restaurants closed, expected to reopen				(2)
Restaurants open, end			141	94
New franchises sold			92	12
Initial franchise fees collected	\$550,750	\$230,000	\$1,318,750	\$555,500
			As of September 30,	
			1996	1995
Franchises sold, not open				156

Area	Directors	60
36		
Company	Stores	10
10		
Stores	held for resale	-
-		

</TABLE>

Results of Operations

Comparison of the First Three quarters of 1966 with the First Three quarters of 1995 and the Third Quarter of 1996 with the Third Quarter of 1995

Total revenue increased 5% in the third quarter of 1996 to \$1,843,025 from \$1,748,455 for the same period last year. In the first three quarters, revenue increased 19% to \$5,499,411 from \$4,612,643 in the first three quarters of 1995.

Franchise related revenue (royalties, franchise and area director fees) increased 18% in the third quarter and 60% in the first three quarters.

Royalty fees increased 43% in the third quarter of 1996 to \$424,349 from \$296,110 in the same period last year. For the first three quarters, royalty fees increased 50% compared to the first

THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

three quarters of 1995. Royalty fees are a percentage of each franchisee's sales paid to the Company weekly or monthly and will increase as new franchises open, sales increase, and as the average royalty percentage increases. Company owned stores do not pay royalties. At September 30, 1996, there were 131 franchises open as compared to 84 at September 30, 1995. The royalty fee is between 4% and 6%, depending on when the franchise was purchased (8% for non-traditional units). The Company has no immediate plans to further increase its royalty fee.

Initial franchise fees increased 57% in the third quarter of 1996 to \$338,000 from \$215,000 in the same period last year, due to a record number of new franchise openings. For the first three quarters, initial franchise fees increased 114% compared to the first three quarters of 1995. Initial franchise fees are one time fees paid by franchisees at the time the franchise is sold, and are not recognized as income until the period in which all of the Company's obligations relating to the sale have been

substantially performed, which generally occurs when the franchise opens. In the first three quarters of 1996, the Company opened 45 franchises as compared to 28 franchises opened in the same period in 1995. The Company's initial franchise fee has been \$20,000 since November 1, 1994. Some of the franchises opened in the first quarter of 1996 purchased the franchise before November 1, 1994 and paid an initial franchise fee less than \$20,000. In 1996, the Company began offering existing franchisees a second franchise for \$15,000, and a third for \$10,000. For franchises to be operated in non-traditional locations, the initial franchise fee per location, depending on the number of locations purchased and other factors, is between \$2,000 and \$10,000.

From June 1, 1996 through September 30, 1996, the Company offered approved existing franchisees the right to purchase one additional franchise for every currently effective franchise agreement for an initial franchise fee of \$1,000. If the purchaser does not have a franchise currently open, the first franchise must be open by December 31, 1996 and the second franchise, purchased under this discount program, must be opened by December 31, 1997. The Company sold 73 such franchises, none of which had opened as of September 30, 1996.

Area director marketing fees decreased 32% in the third quarter of 1996 to \$210,382 from \$311,325 in the third quarter of 1995. For the first three quarters, area director marketing fees increased 44% compared to the first three quarters of 1995. Area director marketing fees are one time fees paid to the Company for the right to sell franchises in a designated, non-exclusive, geographical area. The fee is \$.035 (\$.03 prior to July 1, 1996) per person in the designated area, plus a training fee of \$15,000 (\$12,500 prior to July 1, 1996). The population based portion of the fee is deemed fully earned by the Company when the area director marketing agreement is signed and THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

is recognized as income in that period. During the third quarter, two area directorships were sold and two existing area directors expanded their territory, compared to seven in the third quarter of 1995. In the first three quarters of 1996, the Company sold 21 area directorships as compared to 14 area directorships sold in the first three quarters of 1995. At September 30, 1996, the Company had a total of 60 area directors who owned areas encompassing a population base equal to approximately 52% of the population of the United States.

In 1995, the Company began offering long term financing to certain area director candidates for up to 50% of the area director marketing fee. The amount financed is required to be paid to the Company in installments over five years at 15% interest. The promissory notes are personally signed by the area director and secured by collateral unrelated to the area directorship, usually a mortgage in the area director's home. Of the 21 area directorships sold in the first three quarters of 1996, three used this financings for \$112,019.

Sales by Company owned stores decreased because in the third quarter of 1996, the Company operated stores for a total of 26 store operating months, compared to 30 store operating months in the same quarter last year. Sales decreased by 10% in the third quarter of 1996 to \$770,895 from \$854,000 in the third quarter of 1995. For the first three quarters, sales by Company owned store decreased by 9% from the first three quarters of 1995. For the third quarter, Company stores earned a profit of \$53,622 compared to a profit of \$9,214 in the same quarter last year. During the first three quarters of 1996, the Company earned a profit of \$80,400 at Company stores compared to a loss of \$44,451 in the same period last year. Management does not expect to acquire or sell a significant number of Company stores in 1996.

Stores held for resale lost \$18,789 in the first three quarters of 1996 versus \$85,438 for the same period last year. The 1996 loss is attributable to one store taken over during the first quarter from a franchisee and operated by the Company until it was resold to a new franchisee in April, 1996. The 1995 loss was attributable to two stores resold to franchisees in the second quarter of 1995.

Sales and royalty commissions expense was \$235,403 in the third quarter of 1996 compared to \$80,979 in the third quarter of 1995. For the first three quarters, sales and royalty commission was \$594,591 compared to \$161,492 in the same period last year. Sales and royalty commissions represent amounts paid to the area directors of the Company under the area director program implemented in March of 1995. Since this program was not implemented until the end of the first quarter of 1995, the related expenses for the first three quarters of 1995 were small. Area directors

THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

receive a sales commission equal to 50% of the initial franchise fees received by the Company for franchises sold and opened in



the area director's territory. Area directors also are paid 40% of the royalties received by the Company from franchises open in the area director's territory. In exchange for these payments, the area director is required to market and sell franchises, provide location selection assistance, provide on-site opening assistance to new franchisees, and perform monthly quality control reviews at each franchise open in the area director's territory. Sales and royalty commission expense is expected to continue to increase in direct proportion to the number of franchise openings and the increase in royalty fee revenue.

Advertising and promotion expenses increased to \$105,779 in the third quarter of 1996 from \$34,059 in the third quarter of 1995, and increased to \$269,565 in the first three quarters compared to \$51,216 in the first three quarters of 1995. The increase reflects the Company's commitment to an aggressive and rapid franchise sales and development program, which includes consistent and regular national advertising of the Company's franchise opportunity combined with regularly scheduled orientation and discovery days for franchise and area director candidates. Management believes this program contributed greatly to the record franchise sales by the Company in the third quarter of 1996. Included are one time expenses of \$101,239 for the first three quarters of 1996 (\$51,760 in the third quarter) for direct retail advertising on behalf of franchised stores. The Company had no direct retail advertising expenses in 1995 and has no current plans for any such expenses in the future.

General and administrative expenses increased 37% to \$944,119 for the third quarter of 1996 from \$686,658 in the same period last year. For the first three quarters, general and administrative expenses increased 40% from the same period last year. General and administrative expenses include all of the operating expenses of the Company. The increase in general and administrative expenses is primarily due to the addition of employees to service the rapidly growing network of Quizno's franchisees and area directors. The expenses of the Company have increased to support increases of 50% in units open, 155% in units sold not open, and a 67% increase in area directors. Wages, indirect labor costs, and the travel associated with added franchise support and franchise development personnel represent a substantial portion of the increase. The Company believes its general and administrative expenses are adequate and are not excessive in relation to the size of the Company.

Other expenses were \$88,918 in the first three quarters of 1996. The expense is primarily related to a franchised store in Missouri that was taken over by the Company from a franchisee and

THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

sold to a new franchisee, all within the first quarter of 1996. In addition, the Company has incurred subleasing expenses related to two Company owned stores sold to franchisees.

#### Systemwide Data

Systemwide sales for the third quarter were up 36% to \$9.5 million compared to \$7.0 million for the same quarter last year. Year to date systemwide sales were up 35% to \$25.8 million over \$19.0 million for the first nine months of 1995. Systemwide sales are the total retail sales of all Quizno's restaurants, including Company owned restaurants.

Same store sales were down 3.2% for the third quarter of 1996 compared to same quarter last year. The decrease is attributable, in large part, to the fact that included in the mix are the Company's top volume stores in Colorado which are approaching their maturity after several years of double digit growth. Same store sales is based on 39 stores open all of the third quarter of 1996 and the third quarter of 1995. The Company has changed its method of calculating same store sales to exclude nontraditional units, units in default of their franchise agreement for which such default is unlikely to be cured, units being sold, and the first three months of operations for new units. Because the Company will continue to be in an aggressive growth mode for the next few years, it is anticipated that same store sales will fluctuate as units operating in evolving markets are tracked. The Company will continue to concentrate on its overall rapid growth as a primary goal and to provide interpretation of same store sales from year to year.

Average unit volume for the 1995 calendar year was \$321,000, compared to \$363,000 for the 1994 calendar year. In 1994, the Quizno's restaurant was significantly redesigned to reduce initial costs, reduce breakeven sales levels, and to fit the units in spaces 50% to 60% smaller than previously required. The Company expected reduced sales at these smaller locations, along with a corresponding reduction in operating costs, including rent, labor and utilities. Although volumes are lower, the breakeven point is also lower, resulting in approximately the same return on sales and a higher return on investment for such locations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

## Liquidity and Capital Resources

Cash provided from the sale of franchises was \$1,318,750 for 146 franchises for the first three quarters of 1996, and \$550,750 for 92 franchises for the third quarter of 1996, compared to \$555,000 for 20 franchises and \$230,000 for 12 franchises, respectively, in the same period last year. Although the Company has the use of the cash, these amounts are deferred on the books of the Company until the related franchise opens for business in a future period. The net difference between the amount of cash collected and the amount recorded as revenue on opening is included in Net Cash Used by Operating Activities.

Net cash used by operating activities in the first three quarters of 1996 was \$445,204 compared to cash used in operating activities of \$204,622 in the same period last year.

Net cash used in investing activities in the first three quarters of 1996 was \$714,031 compared to cash used in investing activities of \$869,434 in the first three quarters of 1995. Cash used by investing activities in the first three quarters of 1996 is primarily related to the issuance of notes receivable of \$416,693, including \$225,350 loaned to Quizno's advertising funds, and the purchase of two Company stores from franchisees, \$353,589. In the first three quarters of 1995 the Company used cash to build three new Company stores, \$609,000, and for the turnkey development of two new franchised stores, \$148,000.

Cash used by financing activities in the first three quarters of 1996 was \$79,448 compared to cash used by financing activities of \$414,381 in the same period last year. The amounts for both years represent primarily cash used for the reduction of debt and the payment of preferred stock dividends.

The Company had cash and cash equivalents of \$445,739 and positive working capital of \$421,695 at September 30, 1996.

The Company's operations as a franchisor are not capital intensive. The Company has been able to finance its operations and growth, excluding Company owned stores, through initial franchise fees, area director fees, and royalties. The Company is currently negotiating with unrelated parties to increase its lines of credit and to provide long term debt financing which the Company would use to retire a portion of existing long term debt,

increase working capital, and provide capital for certain growth programs in 1997.

THE QUIZNO'S CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

The Company does not expect seasonality to effect its operations in a materially adverse manner. However, the Company's restaurant sales, and therefore royalties, during the months of November through February are generally lower due to the location of a majority of its restaurants.

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THE QUIZNO'S CORPORATION

Commission File Number: 000-23174

Quarter Ended September 30, 1996

Form 10-QSB

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Previously reported in Form 8-K of the Registrant filed with the SEC on September 19, 1996.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports of Form 8-K

None.

THE QUIZNO'S CORPORATION

Commission File Number: 000-23174

Quarter Ended September 30, 1996

Form 10-QSB

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE QUIZNO'S CORPORATION

By: Original signed by John L. Gallivan  
John L. Gallivan  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Denver, Colorado  
November 14, 1996



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