

MOR-1

UNITED STATES BANKRUPTCY COURT

CASE NAME: Schlotsky's, Inc.
 CASE NUMBER: 04-54504-LMC-11
 PROPOSED PLAN DATE: To Be Determined

PETITION DATE: 08/03/04
 DISTRICT OF TEXAS: Western
 DIVISION: San Antonio

MONTHLY OPERATING REPORT SUMMARY FOR MONTH OF August YEAR 2004

MONTH						
REVENUES (MOR-6)	191,050.00					
INCOME BEFORE INT; DEPREC./TAX (MOR-6)	(453,799.24)					
NET INCOME (LOSS) (MOR-6)	(598,505.10)					
PAYMENTS TO INSIDERS (MOR-9)	108,351.67					
PAYMENTS TO PROFESSIONALS (MOR-9)	0.00					
TOTAL DISBURSEMENTS (MOR-8)	1,407,384.77					
TOTAL DISBURSEMENTS LESS INTERCOMPANY TRANSFERS	718,384.77					

The original of this document must be filed with the United States Bankruptcy Court and a copy must be sent to the United States Trustee

REQUIRED INSURANCE MAINTAINED AS OF SIGNATURE DATE	EXP. DATE	Are all accounts receivable being collected within terms?	CIRCLE ONE No (See Footnote MOR 5)
CASUALTY YES (x) NO ()	9/19/2004	Are all post-petition liabilities, including taxes, being paid within terms?	Yes
LIABILITY YES (x) NO ()	9/19/2004	Have any pre-petition liabilities been paid?	Yes
VEHICLE YES (x) NO ()	9/19/2004	If so, describe: Payroll and other taxes allowed pursuant to Court Order	
WORKER'S YES (x) NO ()	9/19/2004	Are all funds received being deposited into DIP bank accounts?	Yes
OTHER YES (x) NO ()	various	Were any assets disposed of outside the normal course of business?	Yes
		If so, describe	
		Are all U.S. Trustee Quarterly Fee Payments current?	Yes
		What is the status of your Plan of Reorganization?	In Process

ATTORNEY NAME: Robert D. Albergotti
 FIRM NAME: Haynes and Boone, LLP
 ADDRESS: 901 Main Street
Suite 3100
 CITY, STATE, ZIP: Dallas, TX 75202
 TELEPHONE/FAX: (214) 651-5000/(214) 651-5940

INITIALS _____
 DATE _____
 UST USE ONLY

I certify under penalty of perjury that the following complete Monthly Operating Report (MOR), consisting of MOR-1 through MOR-9 plus attachments, is true and correct.

SIGNED X 
 (ORIGINAL SIGNATURE)

Matthew D. Osburn, Vice President, Controller & Assistant Treasurer
 (PRINT NAME OF SIGNATORY)

DATE _____ Revised 07/01/98

CASE NAME: Schlotsky's, Inc.
CASE NUMBER: 04-54504-LMC-11

COMPARATIVE BALANCE SHEETS

ASSETS	FILING DATE*	MONTH	MONTH	MONTH	MONTH	MONTH	MONTH
	08/03/04	Aug-04					
CURRENT ASSETS							
Cash	(95,647.00)	106,638.63					
Accounts Receivable, Net	435,707.00	373,175.32					
Inventory: Lower of Cost or Market							
Prepaid Expenses	389,857.00	590,600.33					
Investments	263,071.00						
Other - Intercompany Receivables	80,010,332.00	79,782,314.43					
Other - Notes Receivable	1,056,633.00	1,012,563.62					
Other - Refundable Income Taxes	9,350.00	9,350.00					
TOTAL CURRENT ASSETS	82,069,303.00	81,874,642.33					
PROPERTY, PLANT & EQUIP. @ COST	5,805,866.00	5,752,614.77					
Less Accumulated Depreciation	4,104,136.00	4,157,294.95					
NET BOOK VALUE OF PP & E	1,701,730.00	1,595,319.82					
OTHER ASSETS							
1. Tax Deposits							
2. Investments in Subsidiaries (see footnote 2)	0.00	563,071.25					
3. Electric Deposit							
4. Intangibles (see footnote 2)	0.00	5,353,978.42					
TOTAL ASSETS	83,771,033.00	89,387,011.82					

* Per Schedules and Statement of Affairs

MOR-2

Revised 07/01/98

Note 1: The Debtor records certain assets pursuant to Generally Accepted Accounting Principles. These amounts were not listed in Debtor's schedules as they add minimal value to the estate.

CASE NAME: Schlitzsky's, Inc.
CASE NUMBER: 04-54504-LMC-11

COMPARATIVE BALANCE SHEETS

LIABILITIES & OWNER'S EQUITY	FILING DATE*	MONTH	MONTH	MONTH	MONTH	MONTH	MONTH
	08/03/04	Aug-04					
LIABILITIES							
POST-PETITION LIABILITIES(MOR-4)		587,768.09					
PRE-PETITION LIABILITIES							
Notes Payable - Secured (see footnote 1)	12,223,947.00	10,290,604.19					
Priority Debt (see footnote 2)	929,054.00	0.00					
Federal Income Tax							
FICA/Withholding							
Unsecured Debt	7,653,833.47	4,816,748.94					
Intercompany Unsecured Debt	38,805,189.53	38,805,189.53					
Other: Accrued liabilities (see footnote 3)	0.00	3,883,173.39					
Other: Deferred revenue (see footnote 3)	0.00	(336,833.34)					
TOTAL PRE-PETITION LIABILITIES	59,612,024.00	57,458,882.71					
TOTAL LIABILITIES	59,612,024.00	58,046,650.80					
OWNER'S EQUITY (DEFICIT)							
PREFERRED STOCK	0.00						
COMMON STOCK	64,139.92	64,139.92					
TREASURY STOCK	(843,155.96)	(843,155.96)					
DIVIDENDS	(544,273.98)	(544,273.98)					
ADDITIONAL PAID-IN CAPITAL	48,830,417.33	48,830,417.33					
RETAINED EARNINGS: Filing Date	(23,348,118.31)	(23,348,118.31)					
ADJUSTMENTS TO EQUITY (see footnote 4)		7,779,857.12					
RETAINED EARNINGS: Post Filing Date	0.00	(598,505.10)					
TOTAL OWNER'S EQUITY (NET WORTH)	24,159,009.00	31,340,361.02					
TOTAL LIABILITIES & OWNERS EQUITY	83,771,033.00	89,387,011.82					

* Per Schedules and Statement of Affairs

MOR-3

Revised 07/01/98

- Note 1: Schlitzsky's, Inc. (SI) is co-debtor/guarantor on a note payable to Kensinger Properties in the amount of \$1,979,505. For disclosure purposes, the full amount of the debt was listed on both of the Debtors' Schedules. However, since the full amount of the note is carried only on the books and records of San Felipe, LLC, Case No. 04-54514-LMC, it has not been included in the liabilities for purposes of this report.
- Note 2: Pursuant to Order Granting Emergency Motion for Order Authorizing Debtors to Pay Pre-petition Salaries, Wages, Payroll Taxes, Employee Benefits and Related Insurance Premiums dated August 6, 2004, Debtor was authorized to pay its pre-petition employee obligations.
- Note 3: The Debtor records on its books accruals for certain liabilities based on estimates. While the known creditors were listed on the Debtor's Schedules, the estimated amounts were not. Accordingly, for purposes of this report, those accrued liabilities are reflected as pre-petition "accrued liabilities."
- Note 4: Certain of the Debtor's assets and liabilities reflected on its financial statements were not quantified on the Debtor's Schedules. In addition, certain liabilities may have been included in the Debtors' Schedules for disclosure purposes. These amounts are adjusted, for purposes of this report, through "Direct Charges to Equity."

CASE NAME: Schlotzsky's, Inc.
CASE NUMBER: 04-54504-LMC-11

SCHEDULE OF POST-PETITION LIABILITIES

	MONTH	MONTH	MONTH	MONTH	MONTH	MONTH
	Aug-04					
TRADE ACCOUNTS PAYABLE	13,495.73					
TAX PAYABLE						
Federal Payroll Taxes						
State Payroll Taxes						
Ad Valorem Taxes						
Other Taxes (Property)	4,391.74					
Other Taxes (Franchise)						
TOTAL TAXES PAYABLE	4,391.74					
SECURED DEBT POST-PETITION						
ACCRUED INTEREST PAYABLE (see footnote 1)						
ACCRUED PROFESSIONAL FEES*	555,810.70					
OTHER ACCRUED LIABILITIES						
1. Medical Claims	9,829.62					
2. Gift Certificate Purchase	3,028.70					
3. Misc	1,211.60					
TOTAL POST-PETITION LIABILITIES (MOR-3)	587,768.09					

*Payment requires Court Approval
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Note 1: Post-petition interest accrual on pre-petition debt is reflected on the pre-petition liability.

CASE NAME: Schlotsky's, Inc.
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AGING OF POST-PETITION LIABILITIES

MONTH August-04

DAYS	TOTAL	TRADE ACCOUNTS	FEDERAL TAXES	STATE TAXES	AD VALOREM, OTHER TAXES	PROFESSIONAL FEES
0-30	587,768.09	27,565.65			4,391.74	555,810.70
31-60	0.00					
61-90	0.00					
91+	0.00					
TOTAL	587,768.09	27,565.65	0.00	0.00	4,391.74	555,810.70

AGING OF ACCOUNTS RECEIVABLE

MONTH	Aug-04 (see Footnote)					
0-30 DAYS						
31-60 DAYS						
61-90 DAYS						
91+ DAYS	373,175.32					
TOTAL	373,175.32					

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Note: Approximately \$133,000 of accounts receivable are due from Schlotsky's Franchise Operations, LLC (Case No. 04-54509-LMC); approximately \$135,000 represents accrued interest due on notes receivable (collection is improbable); the balance of accounts receivable are miscellaneous items (collection is also improbable).

CASE NAME: Schlotsky's, Inc.
CASE NUMBER: 04-54504-LMC-11

STATEMENT OF INCOME (LOSS)

	MONTH Aug-04	MONTH	MONTH	MONTH	MONTH	MONTH	FILING TO DATE
REVENUES (MOR-1)	191,050.00						191,050.00
TOTAL COST OF REVENUES							0.00
GROSS PROFIT	191,050.00						191,050.00
OPERATING EXPENSES:							
Selling & Marketing							0.00
General & Administrative	(242,675.67)						(242,675.67)
Insiders Compensation	89,410.03						89,410.03
Professional Fees	555,188.50						555,188.50
Other - Salaries & Benefits	242,926.38						242,926.38
Other							0.00
TOTAL OPERATING EXPENSES	644,849.24						644,849.24
INCOME BEFORE INT, DEPR/TAX (MOR-1)	(453,799.24)						(453,799.24)
INTEREST EXPENSE	73,552.79						73,552.79
DEPRECIATION	73,460.40						73,460.40
OTHER (INCOME) EXPENSE*	(2,307.33)						(2,307.33)
OTHER ITEMS**							0.00
TOTAL INT, DEPR & OTHER ITEMS	144,705.86						144,705.86
NET INCOME BEFORE TAXES	(598,505.10)						(598,505.10)
FEDERAL INCOME TAXES							0.00
NET INCOME (LOSS) (MOR-1)	(598,505.10)						(598,505.10)

Accrual Accounting Required. Otherwise Footnote with Explanation.

* Footnote Mandatory.

** Unusual and/or infrequent item(s) outside the ordinary course of business requires footnote.

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* Interest Income from Notes Receivable

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CASE NAME: Schlotsky's, Inc.
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CASH RECEIPTS AND DISBURSEMENTS	MONTH Aug-04	MONTH	MONTH	MONTH	MONTH	MONTH	FILING TO DATE
1. CASH-BEGINNING OF MONTH	(95,647.00)						(95,647.00)
RECEIPTS:							
2. CASH SALES							0.00
3. COLLECTION OF ACCOUNTS RECEIVABLE							0.00
4. LOANS & ADVANCES (attach list)							0.00
5. SALE OF ASSETS							0.00
6a. OTHER (Miscellaneous)	15,187.50						15,187.50
6b. OTHER (Intercompany Transfers)	1,148,559.59						1,148,559.59
6c. OTHER (See Footnote)	445,923.31						445,923.31
TOTAL RECEIPTS**	1,609,670.40						1,609,670.40
(Withdrawal) Contribution by Individual Debtor MFR-2*							0.00
DISBURSEMENTS:							
7. NET PAYROLL	372,451.68						372,451.68
8. PAYROLL TAXES PAID	143,412.85						143,412.85
9. SALES, USE & OTHER TAXES PAID							0.00
10. SECURED/RENTAL/LEASES	60,636.69						60,636.69
11. UTILITIES & TELEPHONE	(1,527.45)						(1,527.45)
12. INSURANCE							0.00
13. INVENTORY PURCHASES							0.00
14. VEHICLE EXPENSES							0.00
15. TRAVEL & ENTERTAINMENT							0.00
16. REPAIRS, MAINTENANCE & SUPPLIES	2,891.13						2,891.13
17. ADMINISTRATIVE & SELLING	12,045.50						12,045.50
18a. OTHER (Intercompany Transfers)	689,000.00						689,000.00
18b. OTHER (Board of Director Pmts)	15,000.00						15,000.00
18c. OTHER (Note Payment)	5,000.00						5,000.00
18d. OTHER (Benefits)	108,474.37						108,474.37
18e. OTHER (See Footnote)							
TOTAL DISBURSEMENTS FROM OPERATIONS	1,407,384.77						1,407,384.77
19. PROFESSIONAL FEES							0.00
20. U.S. TRUSTEE FEES							0.00
21. OTHER REORGANIZATION EXPENSES (attach list)							0.00
TOTAL DISBURSEMENTS**	1,407,384.77						1,407,384.77
22. NET CASH FLOW	202,285.63						202,285.63
23. CASH - END OF MONTH (MOR-2)	106,638.63						106,638.63

* Applies to Individual debtors only

**Numbers for the current month should balance (match)

RECEIPTS and CHECKS/OTHER DISBURSEMENTS lines on MOR-8

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6c: Debtor's Schedules were filed based on June 30 financial statements. This represents the net receipts from July 1 through August 3, 2004.

CASE NAME: Schlotsky's, Inc.
CASE NUMBER: 04-54504-LMC-11

CASH ACCOUNT RECONCILIATION
MONTH OF August-04

BANK NAME	Bank One, NA	Bank One, NA	Bank One, NA	Petty Cash, Gift Certs,	
ACCOUNT NUMBER	#638913723	#638913707	#638913749	Closed EBIA Acct	
<i>ACCOUNT TYPE</i>	<i>OPERATING</i>	<i>PAYROLL</i>	<i>EBIA</i>	<i>OTHER FUNDS</i>	<i>TOTAL</i>
BANK BALANCE	192,526.54	145,285.13	22,015.72	3,615.00	363,442.39
DEPOSITS IN TRANSIT					0.00
OUTSTANDING CHECKS	(85,813.56)	(128,305.34)	(34,893.07)	(7,791.79)	(256,803.76)
ADJUSTED BANK BALANCE	106,712.98	16,979.79	(12,877.35)	(4,176.79)	106,638.63
BEGINNING CASH - PER BOOKS	195,905.00	(267,808.00)	(24,629.00)	885.00	(95,647.00)
RECEIPTS*	1,466,890.40	140,000.00	0.00	2,780.00	1,609,670.40
TRANSFERS BETWEEN ACCOUNTS	(341,103.11)	259,000.00	80,664.52	1,438.59	(0.00)
(WITHDRAWAL) OR CONTRIBUTION BY INDIVIDUAL DEBTOR MFR-2					0.00
CHECKS/OTHER DISBURSEMENTS*	(921,916.87)	(387,384.18)	(93,541.87)	(4,541.85)	(1,407,384.77)
ENDING CASH - PER BOOKS	399,775.42	(256,192.18)	(37,506.35)	561.74	106,638.63

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*Numbers should balance (match) TOTAL RECEIPTS and
TOTAL DISBURSEMENTS lines on MOR-7

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