MEXICAN RESTAURANTS, INC.

Audited Consolidated Financial Statements and Footnotes

January 1, 2012

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Mexican Restaurants, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Mexican Restaurants, Inc. and Subsidiaries (the "Company") as of January 1, 2012 and the related consolidated statements of operations, stockholders' equity and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mexican Restaurants, Inc. and Subsidiaries as of January 1, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Briggs & Veselka Co.
Houston, Texas
March 27, 2012

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MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
As of January 1, 2012

ASSETS	
Current assets:	
Cash and cash equivalents	$ 804,816
Royalties receivable, net	99,722
Other receivables, net	120,910
Inventory	530,537
Prepaid expenses and other current assets	974,495
Assets related to discontinued operations, net	100,000
Total current assets	2,630,480
Property and equipment, net	12,939,426
Deferred tax assets	4,506,060
Other assets	107,706
Other assets related to discontinued operations	33,878
Total Assets	$ 20,217,550
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,350,811
Accrued sales and liquor taxes	107,036
Accrued payroll and related taxes	715,351
Accrued expenses	1,061,439
Income taxes payable	135,362
Current portion of liabilities associated with leasing and exit activities	117,050
Total current liabilities	4,487,049
Long-term debt	3,000,000
Liabilities associated with leasing and exit activities, net of current portion	115,899
Deferred gain	312,215
Deferred rent	1,809,244
Total liabilities	9,724,407
Commitments and contingencies	-
Stockholders' equity:	
Series A convertible preferred stock, $0.01 par value, 1,000,000 shares authorized, 838,790 shares issued and outstanding	8,388
Additional paid-in capital, preferred stock	952,679
Common stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued, 3,463,099 shares outstanding	47,327
Additional paid-in capital, common stock	18,471,716
Retained earnings	2,263,500
Treasury stock at cost, 1,269,606 common shares	(11,250,467)
Total stockholders' equity	10,493,143
Total Liabilities and Stockholders' Equity	$ 20,217,550

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
For the fiscal year ended January 1, 2012

Revenues:	
Restaurant sales	$ 66,433,797
Franchise fees, royalties and other	458,060
	66,891,857
Costs and expenses:	
Cost of sales	19,661,984
Labor	22,884,700
Restaurant operating expenses	16,320,996
General and administrative	5,221,991
Depreciation and amortization	2,889,068
Impairment expense	471,730
Bad debt expense	150,427
Loss on sale of property and equipment	43,184
	67,644,080
Operating loss	(752,223)
Other income (expense):	
Interest income	2,187
Interest expense	(222,326)
Other income, net	17,077
	(203,062)
Loss before income taxes	(955,285)
Income tax benefit	480,813
Net loss	$ (474,472)

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the fiscal year ended January 1, 2012

	Preferred Stock	Additional Paid-in Capital-PS	Common Stock	Additional Paid-in Capital-CS	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balances at January 2, 2011	$ --	$ --	$47,327	$ 18,716,827	$ 2,771,215	$(11,693,467)	$ 9,841,902
Proceeds from issuance of preferred stock and warrants	8,000	919,824	--	72,176	--	--	1,000,000
Issuance of vested restricted stock from treasury	--	--	--	(443,000)	--	443,000	--
Dividends on preferred stock	388	32,855	--		(33,243)	--	--
Excess tax expense stock based compensation	--	--	--	(35,127)	--	--	(35,127)
Stock based compensation expense	--	--	--	160,840	--	--	160,840
Net loss	--	--	--	--	(474,472)	--	(474,472)
Balances at January 1, 2012	$ 8,388	$ 952,679	$ 47,327	$ 18,471,716	$ 2,263,500	$(11,250,467)	$ 10,493,143

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
For the fiscal year ended January 1, 2012

Cash flows from operating activities:	
Net loss	$ (474,472)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	2,889,068
Deferred gain amortization	(208,142)
Impairment expense	471,730
Bad debt expense	150,427
Loss on sale of property and equipment	43,184
Stock-based compensation expense	160,840
Excess tax expense stock based compensation	35,127
Deferred income tax benefit	(641,483)
Changes in operating assets and liabilities	
Royalties receivable	(98,174)
Other receivables	(37,209)
Inventory	8,099
Prepaid and other current assets	(36,185)
Other assets	6,587
Accounts payable	(37,794)
Accrued expenses and other liabilities	89,451
Income taxes payable	32,559
Liabilities associated with leasing and exit activities	(237,636)
Deferred rent and other long-term liabilities	(142,555)
Total adjustments	2,447,894
Net cash provided by continuing operations	1,973,422
Net cash used in discontinued operations	(3,180)
Net cash provided by operating activities	1,970,242
Cash flows from investing activities:	
Purchase of property and equipment	(1,414,707)
Proceeds from sale of property and equipment	5,610
Net cash used in investing activities	(1,409,097)
Cash flows from financing activities:	
Payments under line of credit agreement	(1,400,000)
Proceeds from issuance of preferred stock and warrants	1,000,000
Excess tax expense-stock based compensation	(35,127)
Net cash used in financing activities	(435,127)
Net increase in cash and cash equivalents	126,018
Cash and cash equivalents at beginning of year	678,798
Cash and cash equivalents at end of year	$ 804,816
Supplemental disclosure of cash flow information:	
Cash paid during the year:	
Interest	$ 203,359
Income taxes	$ 157,902

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

(1) Organization and nature of business

General overview:

Mexican Restaurants, Inc. (the "Company") was incorporated under the name "Casa Olé Restaurants, Inc." under the laws of the State of Texas in February 1996, and had its initial public offering of Common Stock in April 1996. In May 1999, the corporate name was changed to "Mexican Restaurants, Inc". In November 2010, the Company deregistered its common stock and suspended its reporting obligations under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company maintains a market in its common shares by having the shares listed on the Pink Sheets, a quotation service that does not require an issuer to be registered with the Securities and Exchange Commission ("SEC"). The Company was eligible to deregister its common stock under the Exchange Act because it had fewer than 300 shareholders of record. The Company operates as a holding company and conducts substantially all of its operations through its subsidiaries. All references to the Company include the Company and its subsidiaries, unless otherwise stated.

The Company operates and franchises full-service Mexican-themed restaurants featuring various elements associated with the casual dining experience under the names Casa Olé®, Monterey's Little Mexico® ("Monterey"), Tortuga Coastal Cantina® ("Tortuga") and Crazy Jose's®. The Company also operates a burrito fast casual concept under the name Mission Burrito™. The Casa Olé, Monterey, Tortuga, Crazy Jose's and Mission Burrito concepts have been in business for 40, 57, 18, 25 and 15 years, respectively. Today, the Company operates 53 restaurants, franchises 13 restaurants and licenses one restaurant in various communities across Texas, Louisiana and Oklahoma. The Casa Olé, Monterey and Crazy Jose's restaurants are designed to appeal to a broad range of customers, and are located primarily in small and medium-sized communities and in middle-income areas of larger markets. The Tortuga and Mission Burrito restaurants, which are also designed to appeal to a broad range of customers, are located primarily in the Houston market. The restaurants offer fresh, quality food, affordable prices, friendly service and comfortable surroundings. The full-service menus feature a variety of traditional Mexican and Tex-Mex selections, complemented by the Company's own original Mexican-based recipes, designed to have broad appeal. The Mission Burrito restaurants offer freshly made burritos, tacos, quesadillas, soups, salads and chips with guacamole and/or chili con queso.

Company-operated restaurants:

The Company's primary source of revenues is the sale of food and beverages at company-owned restaurants. All of the company-owned restaurant sites are leased. Real estate leased for company-owned restaurants is typically leased under triple net leases that require the Company to pay real estate taxes and utilities, to maintain insurance with respect to the premises and in certain cases to pay contingent rent based on sales in excess of specified amounts. Generally the non-mall locations for the company-owned restaurants have initial terms of 10 to 20 years with renewal options.

Franchisee-operated restaurants:

The Company also derives revenues from franchise fees, royalties and other franchise-related activities. The Company currently has seven Casa Olé franchisees operating a total of 13 restaurants and one licensee operating one Monterey's restaurant. Three underperforming Casa Olé franchise locations were closed during fiscal year 2011.

(2) Significant accounting policies

Basis of presentation

The consolidated financial statements of the Company include the accounts of Mexican Restaurants, Inc. and its wholly-owned subsidiaries, after elimination of all significant inter-company transactions, and were prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Company maintains its accounting records on a 52/53 week fiscal year ending on the Sunday nearest December 31. References in this report to fiscal year 2011 relate to the period ended January 1, 2012. Fiscal year 2011 presented herein consisted of 52 weeks.

Use of estimates and assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Significant estimates include, but are not limited to the estimates used in calculating depreciation and amortization, the estimates used when evaluating long-lived assets for impairment, and the determination of valuation allowances related to income taxes and the utilization of net operating loss carryforwards in future periods. Because of the inherent uncertainties in these estimates, it is at least reasonably possible that the estimates used will change in the near term.

Concentration of credit risks

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federally insured financial institutions in excess of federally insured limits.

Cash and cash equivalents

The cash account includes restricted funds that are segregated from operating funds. The restricted funds are used at the discretion of the Company's employees and management for community relation purposes. The restricted fund balance was approximately $167,000 as of January 1, 2012. Cash equivalents include credit card receivables because they are typically converted to cash within three to five days of the sales transaction.

Revenue recognition

Revenue from the sale of food, soft beverages and alcoholic beverages are recognized as products are sold. Franchise fee revenue from an individual franchise sale is recognized when all services relating to the sale have been performed and the restaurant has commenced operations. Initial franchise fees relating to area franchise sales are recognized ratably in proportion to services that are required to be performed pursuant to the area franchise or development agreements and proportionately as the restaurants within the area are opened. The Company's current standard franchise agreement also provides for a royalty payment which is a percentage of gross sales. Royalty income is recognized when it is earned.

Revenues from gift card sales are recognized upon redemption. Prior to redemption, the outstanding balances of all gift cards are included in accounts payable in the consolidated balance sheet.

Sales taxes

Sales taxes collected from customers are excluded from revenues. The obligation is included in current liabilities until the taxes are remitted to the appropriate taxing authorities.

Pre-opening costs

Pre-opening costs primarily consist of hiring and training employees associated with the opening of a new restaurant and are expensed as incurred. No new restaurants were opened in fiscal year 2011.

Discontinued operations and leasing exit activities

The assets and liabilities for all units that have been disposed of, either individually or in the aggregate, have been reclassified to assets related to discontinued operations, other assets related to discontinued operations or to liabilities associated with leasing and exit activities in the consolidated balance sheet.

On February 22, 2011, the Company entered into a "Promissory Note" along with a "Settlement and Release Agreement" to exit the lease related to a store that was closed in November 2010. This $150,000 non-interest bearing promissory note is included in liabilities associated with leasing and exit activities. A down payment of $40,000 was made on February 22, 2011 and the remaining balance of $110,000 is payable in twelve equal monthly installments. As of January 1, 2012, the Company owed $9,167 for this obligation.

On May 2, 2011, the Company entered into a "Promissory Note" along with a "Compromise Settlement and Release Agreement" to exit the lease related to a store that had been subleased. This $200,000 non-interest bearing promissory note is included in liabilities associated with leasing and exit activities. The principal balance is due in thirty-six equal monthly installments and contains a penalty clause that increases the principal to $600,000 if the Company defaults on the note. As of January 1, 2012, the Company owed $144,445 for this obligation.

As of January 1, 2012, assets related to discontinued operations of $100,000 consisted of rent receivable from a subleased restaurant that ceased operations. Other assets related to discontinued operations of $33,878 consisted of security deposits for leases in the state of Michigan that were assigned to a third party in 2009 and which expire in 2019. Current and long-term liabilities related to leasing and exit activities consisted primarily of accrued closure costs related to two non-interest bearing notes payable made in 2011 to exit two leases and of rent differentials for two other closed restaurants for which the Company has subleased the restaurants. Rent differentials represent the difference between the Company's future contractual lease payment obligations for closed restaurants and contractual future rent payments to be received in accordance with the terms of the subleases.

Inventory

Inventory, which is mainly comprised of food and beverages, is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Miscellaneous restaurant supplies are included in inventory and valued on a specific identification basis.

Property and equipment

Property and equipment are stated at cost. Depreciation on equipment and vehicles is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term plus renewal options reasonably assured or the estimated useful life of the assets.

Leasehold improvements	2-19 years
Vehicles	5 years
Equipment	3-15 years

Upon opening of a new restaurant, the initial purchase of smallwares is capitalized as restaurant equipment, but not depreciated. Subsequent purchases of smallwares are expensed as incurred.

Significant expenditures that add materially to the utility or useful lives of property and equipment are capitalized. All other maintenance and repair costs are charged to current operations. The cost and related accumulated depreciation of assets replaced, retired or otherwise disposed of are eliminated from the property accounts and any gain or loss is reflected in costs and expenses.

Property and equipment at January 1, 2012 were as follows:

Land	$ 60,750
Vehicles	16,874
Equipment and smallwares	22,179,419
Leasehold improvements	17,725,377
	39,982,420
Less: Accumulated depreciation and amortization	(27,042,994)
Property and equipment, net	$ 12,939,426

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated undiscounted net cash flow, excluding interest, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

Impairment expense of $471,730 during 2011 primarily related to asset impairments for two under-performing operating restaurants.

Advertising expense

Each year, management prepares a budget for advertising expenses to promote each restaurant brand. Prepaid advertising is deferred and amortized to expense based on estimates of usage. The Company recorded advertising expense in continuing operations of $790,866 for fiscal year 2011.

Deferred rent

Lease rentals that have escalating rents are recorded as expense on a straight line basis over the life of each lease. Most of these lease agreements require minimum annual rent payments plus contingent rent payments based on a percentage of restaurant sales which exceed the minimum base rent. Contingent rent payments, to the extent they exceed minimum payments, are accrued during the periods in which the liability is incurred. Incentive allowances provided by landlords under leasing arrangements are deferred as a liability and amortized to income as an adjustment to rent expense over the life of the lease.

Deferred gain

On June 25, 1998, the Company completed a sale-leaseback transaction involving the sale and leaseback of land, building and improvements of 13 company-owned restaurants. The properties were sold for $11.5 million and resulted in a gain of approximately $3.5 million that was deferred and is amortized over the terms of the operating leases, which are 15 years each. The deferred gain at January 1, 2012 was $312,215. Subsequent to the original transaction, two leases were sold. The remaining 11 leases have a total future minimum lease obligation of $1,782,822 and are included in the future minimum lease payment schedule below.

Commitments and contingencies

Restaurant operating space and equipment are leased by the Company under non-cancelable operating leases which expire at various dates through January 31, 2024. The restaurant operating space base agreements typically provide for a minimum lease rent plus common area maintenance, insurance, and real estate taxes, plus additional percentage rent based upon revenues of the restaurant (generally 2% to 7%) and may be renewed for periods ranging from one to twenty-five years.

Future minimum lease payments (which includes the two closed restaurants scheduled below) under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of January 1, 2012 were approximately:

Fiscal year ending	
2012	$ 5,084,141
2013	3,766,979
2014	2,645,881
2015	2,310,022
2016	1,931,377
Thereafter	8,904,005
	$ 24,642,405

Two restaurants (which are included in the table above) have been subleased to third party restaurant operators. Each of the sublease terms corresponds with its underlying base lease term. Future minimum lease receipts under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of January 1, 2012 were approximately:

Fiscal year ending	
2012	$ 194,162
2013	124,228
	$ 318,390

Total rent expense for restaurant operating space and equipment amounted to $5,502,242 for fiscal year 2011.

From time-to-time, the Company is subject to various litigation and other claims in the normal course of business. The Company establishes liabilities in connection with legal actions that management deems to be probable and estimable. No amounts have been accrued in the financial statements with respect to any matters.

Fair value measurements

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings, as reflected in the balance sheet, approximate fair value because of the short-term maturity of these instruments. The estimated fair value of long-term debt was determined by discounting future cash flows using rates currently available to the Company for debt with similar terms and remaining maturities. The Company calculated that the estimated fair value of the long term debt is not significantly different than the carrying value of the debt.

Income taxes

Income taxes are provided based on the liability method for financial reporting purposes. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

Uncertain tax positions are recognized in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction, and three state jurisdictions. The Company's periodic tax returns filed in 2007 and thereafter are subject to examination by taxing authorities in accordance with the normal statutes of limitations in the applicable jurisdictions.

The benefit (expense) for income taxes is summarized as follows for fiscal year 2011:

Current:	
Federal	$ --
State and local	(160,670)
Deferred	641,483
	$ 480,813

The actual income tax benefit differs from the expected income tax benefit calculated by applying the U.S. federal corporate tax rate to loss from continuing operations before income tax expense as follows:

Expected tax benefit	$ 324,797
State tax expense	(105,535)
Tax credits	314,495
Other	(52,944)
	$ 480,813

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at January 1, 2012 are as follows:

Deferred tax assets:	
Sale-leaseback	$ 106,153
Tax credit carryforwards	2,291,694
Stock compensation differences	56,755
Other	32,649
Capital losses	146,760
Bad debt expense	109,453
Goodwill amortization differences	683,538
Asset impairments	492,984
Depreciation differences	629,111
Net operating losses (NOL's)	522,594
Accrued expenses	141,129
	5,212,820
Valuation allowances	(706,760)
Net deferred taxes	$4,506,060

At January 1, 2012, the Company had federal tax credit carryforwards of approximately $2.3 million and federal NOL carryforwards of approximately $1.5 million all of which expire in years through 2031 and all of which are available to reduce future Federal regular income taxes. The Company also has a capital loss carryover in the amount of approximately $432,000 that expires in 2014.

Receivables and allowances for doubtful accounts

Receivables are stated at face value less an allowance for doubtful accounts. Company management evaluates the collectability of receivables and establishes an allowance for doubtful accounts based primarily upon collection history and the obligor's financial condition. All changes in the net carrying amount of our contracts are recorded as adjustments to bad debt expense. Uncollectible contracts are written off when it is determined that there is minimal chance of any kind of recovery, such as bankruptcy or other condition that severely impacts an obligor's ability to repay amounts owed.

Stock-based compensation

The Company accounts for share-based awards through the measurement and recognition of compensation expense for all share-based payment awards to employees, directors, and consultants based on estimated fair values. Compensation expense is recognized for all stock-based compensation with future service requirements over the period that the recipient of the award provides service in exchange for the award. Stock options granted are recorded at estimated fair value using an option-pricing model or other applicable valuation technique. Restricted stock shares granted are recorded at estimated fair value based upon the quoted market value of the Company's common stock on the date of grant. The fair value of each share is expensed over the period during which the related restrictions lapse.

(3) Stock-based compensation plans

The Company has four stock-based compensation plans under which shares of common stock are issued to employees, officers, directors and consultants. The 2005 Long Term Incentive Plan was approved by shareholders and authorizes the granting of common stock in the form of incentive stock options, non-qualified stock options, and restricted stock. The 2005 Long Term Incentive Plan is the only plan with securities remaining available for future issuance. As of January 1, 2012, fifty-nine thousand five-hundred (59,500) shares remain available for future issuance. The purpose of the 2005 Plan is to benefit and advance the interests of the Company by attracting and retaining qualified directors and key executive and managerial employees; motivate employees, by making appropriate awards, to achieve long-range goals; provide incentive compensation that is competitive with other corporations; and further align the interests of directors, employees and other participants with those of other shareholders.

The following table provides information about the shares of common stock that may be issued upon exercise and vesting of awards under these four plans as of January 1, 2012.

	Number of Securities to be Issued Upon Exercise of Stock Options and Vesting of Restricted Stock Shares	**Weighted Average Exercise Price of Stock Options (1)**	**Number of Securities Remaining Available for Future Issuance Under Stock-based Compensation Plans**
Stock-based compensation plans approved by shareholders	253,600	$10.59	59,500
Stock-based compensation plans not approved by shareholders	500	$4.02	--

(1) Grants of restricted stock are valued as of the date of vesting and have no exercise price. Consequently, they are not included in the calculation of weighted average exercise price.

(a) Stock Option Activity

The following table reflects the stock option activity during 2011:

	Options Granted		**Options Exercisable**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding options at January 2, 2011	306,150	$ 8.73	267,150	$ 8.80
Granted	--	--	--	--
Exercised	--	--	--	--
Canceled/forfeited	(67,550)	2.96	(50,550)	3.96
Outstanding options at January 1, 2012	238,600	$ 10.36	216,600	$ 10.57

Information relating to significant option groups outstanding at January 1, 2012, is as follows:

	Options Granted			Options Exercisable		
Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.00–6.00	18,600	0.89	$ 3.41	18,600	0.89	$ 3.41
$6.01–9.00	60,000	5.48	8.15	38,000	5.50	8.08
$12.00	160,000	3.92	12.00	160,000	3.92	12.00
$3.00–12.00	238,600	4.07	$ 10.36	216,600	3.93	$ 10.57

The Company receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options were sold over the exercise prices of the options. During fiscal year 2011, no one exercised any stock options. The 238,600 options outstanding at January 1, 2012 had exercise prices ranging from $3.10 to $12.00, of which 160,000 of the options had exercise prices of $12.00. As of January 1, 2012, 216,600 options were vested and exercisable.

The Company did not grant any stock options during fiscal year 2011. As of January 1, 2012, the Company had unrecognized stock based compensation expense of $23,623 for all unvested stock option awards.

(*b) Restricted Stock Activity*

On May 22, 2007, the Board of Directors approved a restricted stock grant of 10,000 shares to the Company's President, with such grant vesting over a four year period. This award provided that the Company was to make additional restricted stock grants on the four following anniversary dates, for an aggregate of 40,000 shares. On May 22, 2011, restricted stock grants in the amount of 10,000 shares to the Company's President were granted pursuant to the May 22, 2007 agreement, with such shares vesting over a four-year period.

The following table reflects the restricted stock activity during 2011:

	Shares	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (years)
Unvested at beginning of year	50,000	$ 4.38	
Granted	10,000	1.35	
Vested	(22,500)	5.51	
Forfeited	--	--	
Unvested at end of year	37,500	$ 2.89	2.25

The unvested restricted share awards were valued from $1.35 to $6.90 per share based on the grant date stock price and vest over 1 to 4 years. As of January 1, 2012, the unrecognized stock based compensation expense associated with unvested restricted shares was $83,969 and will be recognized over an average period of 2.25 years. During 2011, 50,000 treasury shares were issued for restricted stock which vested during 2010 and 2011.

(c) Performance units

Performance units have been granted under the 2005 Long Term Incentive Plan. The performance units vest upon a business combination (as defined in the plan) and are payable in cash in an amount equal to the product of the number of units vested and the average of the high and low prices of the common stock as of the last business day preceding the business combination, which average price must be in excess of $20.00 per share. As of January 1, 2012, there were 245,000 performance units available to be issued.

(4) Long term debt

The Company entered into a credit agreement (the "Agreement") with a financial institution in June 2007 which provided for a revolving loan of up to $10 million. Over the years, the available credit has been reduced in accordance with amendments to the Agreement. As of January 1, 2012, the amended Agreement provided for a revolving loan of up to $3.9 million which will be reduced by $275,000 on the first day of each fiscal quarter. At management's option, the revolving loan bears an interest rate equal to the Base Rate plus a stipulated percentage or LIBOR plus a stipulated percentage. Accordingly, the Company is impacted by changes in the Base Rate and LIBOR. The Company is subject to a non-use fee of 0.50% on the unused portion of the revolver from the date of the Agreement. As of January 1, 2012, the Company's outstanding debt to the financial institution was $3.0 million and the entire balance matures on June 29, 2013. Under the amended Agreement, the Company is subject to certain debt covenants that if violated would cause the loan to become due sooner than the stipulated maturity date.

As of the fourth quarter of 2010, the Company was in default of the Agreement with regard to financial covenants. As a result, the Agreement was amended on April 8, 2011. Under this amendment, the financial institution agreed to waive the third and fourth quarter 2010 defaults subject to amended terms and conditions to the Agreement. The amended terms and conditions primarily include the following changes to the Agreement: (1) the loan maturity date was extended to June 29, 2013, (2) the maximum available credit was reduced to $4,725,000 and will continue to be reduced by $275,000 on the first day of each fiscal quarter beginning July 4, 2011, (3) the rate for borrowing was increased, (4) the calculation of certain financial ratios was redefined and a new financial ratio was added, (5) the measurement periods and certain financial ratio limits were redefined and, (6) a $1,000,000 capital contribution was required (see footnote 9 "Stockholders' equity-Issuance of preferred stock and warrants" for more details).

As of November and December 2011, the Company was in default of the Agreement with regard to financial covenants. As a result, the Agreement was amended on February 23, 2012. Under this amendment, the financial institution agreed to waive the November 2011 and December 2011 defaults subject to amended terms and conditions to the Agreement. The amended terms and conditions primarily redefined certain financial ratio limits.

The Company repaid $1.4 million on the line of credit during fiscal year 2011 of which $1.0 million was received from the sale of Series A convertible preferred stock and warrants (see footnote 9 "Stockholders' equity-Issuance of preferred stock and warrants" for more details).

The Agreement also allows up to $2.0 million in annual stock repurchases. Although the Agreement permits the Company to implement a share repurchase program for up to $2.0 million annually under certain conditions, the Company currently has no repurchase programs in effect. Shares previously acquired are being held for general corporate purposes, including the offset of the dilutive effect on shareholders from the exercise of stock options. The Company has pledged the stock of its subsidiaries, leasehold interests, patents and trademarks and furniture, fixtures and equipment as collateral for its credit facility with the financial institution.

Management believes that with its operating cash flows and revolving line of credit under the Agreement, as amended on February 23, 2012, funds will be sufficient to meet operating requirements and to finance routine capital expenditures through the next 12 months. Unless the Company violates a debt covenant, the Company's credit facility is not subject to triggering events that would cause the credit facility to become due sooner than the maturity date described in the previous paragraphs. As of the date hereof, management expects the Company will be in compliance with the debt covenants, as amended, during the next 12 months, although management continues to closely monitor the Company's operating results and cash flows.

(5) Related party transactions

On June 15, 2007, Mr. Forehand, a Director and Vice Chairman of the Board, entered into an Asset Purchase Agreement to purchase the assets of the Company's Casa Olé restaurant located in Stafford, Texas, a then under-performing restaurant, for an agreed price of 26,806 shares of the Company's common stock. The stock was valued at $8.14 per share, which was the ten-day weighted average stock price as of June 12, 2007, for a total value of $218,205. The sale resulted in a loss of $79,015. The restaurant operations were taken over by Mr. Forehand after the close of business on July 1, 2007. The Stafford restaurant operates under the Company's uniform franchise agreement and is subject to a monthly royalty fee. For the fiscal year ended January 1, 2012, the Company recognized royalty income of $21,323 related to this site.

On April 11, 2011, the Company received $1,000,000 from executives and board members of the Company in cash in exchange for 800,000 Series A Convertible Preferred Stock ("Series A") shares and non-transferable share warrants to purchase up to 125,000 common stock shares. (See footnote 9 for more details regarding the sale of these securities.)

(6) Accrued expenses

Accrued expenses consist of the following at January 1, 2012:

Property taxes	$ 533,550
Group insurance	270,234
Contingent lease rent	86,922
Other	170,733
	$1,061,439

(7) Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following at January 1, 2012:

Triple net lease rent	$ 498,711
Property insurance	287,424
Licenses	133,762
Other	54,598
	$ 974,495

(8) 401(k) Plan

Beginning in fiscal year 1998, the Company established a defined contribution 401(k) plan that covers substantially all full-time employees meeting certain age and service requirements. Participating employees may elect to defer a percentage of their qualifying compensation as voluntary employee contributions. The Company may contribute additional amounts at the discretion of management. The Company did not make any contributions to the plan in fiscal year 2011.

(9) Stockholders' equity

Dividends

Since the Company's 1996 initial public offering, no cash dividends have been paid on the Company's Common Stock. Management intends to retain earnings of the Company to support operations and pay down debt, and does not intend to pay cash dividends on the Common Stock for the foreseeable future. In addition, the current credit agreement prohibits the payment of any cash dividends. Any payment of cash dividends in the future will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, the Company's financial condition and the ability to do so under then-existing credit agreements.

Issuance of preferred stock and warrants

On April 11, 2011, the Company received $1,000,000 in cash in exchange for 800,000 Series A Convertible Preferred Stock shares and non-transferable share warrants to purchase up to 125,000 common stock shares. The equity contribution was made pursuant to resolutions adopted by the Board of Directors on February 4, 2011. The Series A Convertible Preferred Stock has a par value of $.01 per share and a stated value of $1.25 per share and may be converted to Common Stock on a one-for-one basis. Dividends accrue at 8% per annum on the preferred stock with payment dates occurring on or before May 15, 2013 to be paid by issuing additional shares of Series A Convertible Preferred stock in lieu of cash. The holders of the Series A Convertible Preferred stock have voting rights provided by the Texas Business Organization Code as well as additional rights as defined in the designating resolutions. The non-transferable share warrants have an exercise price of $2.00 per share.

(10) Subsequent Events

As of November and December 2011, the Company was in default of its Agreement with a financial institution with regard to financial covenants. As a result, the Agreement was amended on February 23, 2012. Under this amendment, the financial institution agreed to waive the November 2011 and December 2011 defaults subject to amended terms and conditions to the Agreement. The amended terms and conditions primarily redefined certain financial ratio limits.

Management has evaluated subsequent events through March 27, 2012, the date which the financial statements were available to be issued.