MRI
MEXICAN RESTAURANTS, INC.

Audited Consolidated Financial Statements and Footnotes

For the fiscal years ended December 29, 2013 and December 30, 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
Houston, Texas

We have audited the accompanying consolidated financial statements of Mexican Restaurants, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 29, 2013 and December 30, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiaries as of December 29, 2013 and December 30, 2012, and the results of their operations and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

March 26, 2014

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MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 29, 2013 and December 30, 2012

ASSETS	Dec 29, 2013	Dec 30, 2012
Current assets:		
Cash and cash equivalents	$ 1,652,068	$ 1,249,409
Royalties receivable, net	40,036	57,605
Other receivables, net	164,804	115,859
Inventory	497,807	546,741
Prepaid expenses and other current assets	771,039	771,800
Deferred tax assets	968,635	1,274,305
Assets related to discontinued operations, net	20,576	55,645
Total current assets	4,114,965	4,071,364
Property and equipment, net	11,927,579	10,959,831
Deferred tax assets	3,956,517	3,594,317
Other assets	175,846	88,659
Other assets related to discontinued operations	33,878	33,878
Total assets	$ 20,208,785	$ 18,748,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,376,202	$ 2,417,019
Accrued sales and liquor taxes	109,862	107,404
Accrued payroll and related taxes	746,858	762,048
Accrued expenses	946,465	991,743
Income taxes payable	140,100	149,951
Current portion of long-term debt	23,887	2,000,000
Current portion of liabilities associated with leasing and exit activities	115,019	181,367
Total current liabilities	4,458,393	6,609,532
Long-term debt, net of current portion	3,156,113	-
Liabilities associated with leasing and exit activities, net of current portion	-	11,111
Deferred gain	-	93,352
Deferred rent	1,374,529	1,595,439
Total liabilities	8,989,035	8,309,434
Commitments and contingencies	-	-
Stockholders' equity:		
Series A convertible preferred stock, $0.01 par value, 1,000,000 shares authorized, 982,987 and 908,131 shares issued and outstanding	9,830	9,081
Additional paid-in capital, preferred stock	1,127,082	1,003,628
Common stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued, 3,489,099 and 3,481,599 shares outstanding	47,327	47,327
Additional paid-in capital, common stock	18,220,910	18,273,317
Retained earnings	2,834,708	2,191,819
Treasury stock at cost, 1,243,606 and 1,251,106 common shares	(11,020,107)	(11,086,557)
Total stockholders' equity	11,219,750	10,438,615
Total liabilities and stockholders' equity	$ 20,208,785	$ 18,748,049

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the fiscal years ended December 29, 2013 and December 30, 2012

	Dec 29, 2013	Dec 30, 2012
Revenues:		
Restaurant sales, net	$ 66,406,066	$ 67,730,211
Franchise fees, royalties and other	398,127	407,486
	66,804,193	68,137,697
Costs and expenses:		
Cost of sales	19,152,502	19,690,277
Labor	22,635,392	23,167,877
Restaurant operating expenses	16,640,872	16,749,592
General and administrative	4,914,350	4,932,350
Depreciation and amortization	2,196,707	2,601,086
Preopening expense	21,536	-
Impairment expense	214,085	1,061,302
Restaurant closure expense	99,819	95,744
Bad debt expense	-	24,146
Loss on sale of property and equipment	14,257	57,838
	65,889,520	68,380,212
Operating income (loss)	914,673	(242,515)
Other income (expense):		
Interest income	12,045	10,196
Interest expense	(108,304)	(144,486)
Other income, net	19,983	27,510
	(76,276)	(106,780)
Income (loss) before income taxes	838,397	(349,295)
Income tax (expense) benefit	(71,305)	329,256
Net income (loss)	$ 767,092	$ (20,039)

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the fiscal years ended December 29, 2013 and December 30, 2012

	Preferred Stock	Additional Paid-in Capital-PS	Common Stock	Additional Paid-in Capital-CS	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	$ 8,388	$ 952,679	$ 47,327	$ 18,471,716	$ 2,263,500	$(11,250,467)	$ 10,493,143
Issuance of vested restricted stock from treasury	--	--	--	(163,910)	--	163,910	--
Dividends on preferred stock	693	50,949	--	--	(51,642)	--	--
Excess tax expense stock-based compensation	--	--	--	(114,256)	--	--	(114,256)
Stock-based compensation expense	--	--	--	79,767	--	--	79,767
Net loss	--	--	--	--	(20,039)	--	(20,039)
Balance at December 30, 2012	9,081	1,003,628	47,327	18,273,317	2,191,819	(11,086,557)	10,438,615
Issuance of vested restricted stock from treasury	--	--	--	(66,450)	--	66,450	--
Dividends on preferred stock	749	123,454	--	--	(124,203)	--	--
Excess tax expense stock- based compensation	--	--	--	(4,498)	--	--	(4,498)
Stock-based compensation expense	--	--	--	18,541	--	--	18,541
Net income	--	--	--	--	767,092	--	767,092
Balance at December 29, 2013	$ 9,830	$ 1,127,082	$ 47,327	$ 18,220,910	$ 2,834,708	$(11,020,107)	$ 11,219,750

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

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended December 29, 2013 and December 30, 2012

	Dec 29, 2013	Dec 30, 2012
Cash flows from operating activities:		
Net income (loss)	$ 767,092	$ (20,039)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,196,707	2,601,086
Deferred gain amortization	(93,352)	(218,861)
Impairment and restaurant closure expense	313,904	1,157,046
Bad debt expense	-	24,146
Loss on sale of property and equipment	14,257	57,838
Stock-based compensation expense	18,541	79,767
Excess tax expense stock-based compensation	4,498	114,256
Deferred income tax benefit	(61,028)	(476,819)
Changes in operating assets and liabilities		
Royalties receivable	17,569	42,117
Other receivables	(48,945)	(19,095)
Inventory	48,934	(16,204)
Prepaid expenses and other current assets	761	202,695
Other assets	9,021	1,468
Accounts payable	(140,635)	(29,537)
Accrued expenses and other liabilities	(58,011)	(22,630)
Income taxes payable	(9,851)	14,589
Liabilities associated with leasing and exit activities	(77,459)	(40,471)
Deferred rent	(220,910)	(213,806)
Total adjustments	1,914,001	3,257,585
Net cash provided by continuing operations	2,681,093	3,237,546
Net cash provided by discontinued operations	35,069	44,355
Net cash provided by operating activities	2,716,162	3,281,901
Cash flows from investing activities:		
Purchase of property and equipment	(3,377,859)	(1,727,002)
Proceeds from sale of property and equipment	14,851	3,950
Net cash used in investing activities	(3,363,008)	(1,723,052)
Cash flows from financing activities:		
Borrowings under line of credit agreement	900,000	500,000
Payments under line of credit agreement	(1,000,000)	(1,500,000)
Borrowings under construction loan agreement	1,280,000	-
Debt issuance costs	(125,997)	-
Excess tax expense stock-based compensation	(4,498)	(114,256)
Net cash provided (used) in financing activities	1,049,505	(1,114,256)
Net increase in cash and cash equivalents	402,659	444,593
Cash and cash equivalents at beginning of year	1,249,409	804,816
Cash and cash equivalents at end of year	$ 1,652,068	$ 1,249,409
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Interest	$ 85,990	$ 119,200
Income taxes	$ 172,982	$ 159,792
Supplemental disclosures of noncash investing activities:		
Issuance of stock dividends	$ 124,203	$ 51,642

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 29, 2013 and December 30, 2012

(1) Organization and nature of business

General overview

Mexican Restaurants, Inc. (the "Company") was incorporated under the name "Casa Olé Restaurants, Inc." in 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 stockholders 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 Mexican Kitchen® (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 42, 59, 20, 27 and 17 years, respectively. Today, the Company operates 46 restaurants, franchises 10 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 except one of the company-owned restaurant sites are leased. Real estate 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. Three company-operated locations were closed during fiscal year 2012 and five were closed during fiscal year 2013. One new Casa Olé company-owned restaurant was opened during fiscal year 2013 in the same vicinity as two of the locations that were closed during fiscal year 2013.

Franchisee-operated restaurants

The Company also derives revenues from franchise fees, royalties and other franchise-related activities. The Company currently has six Casa Olé franchisees operating a total of 10 restaurants and one licensee operating one Monterey's restaurant. Two Casa Olé franchise locations were closed during fiscal year 2012 and one was closed during fiscal year 2013.

(2) Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been 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 2013 and fiscal year 2012 relate to the periods ended December 29, 2013 and December 30, 2012, respectively. Fiscal years 2013 and 2012 presented herein each consisted of 52 weeks.

Basis of consolidation

The consolidated financial statements include the accounts of Mexican Restaurants, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates and assumptions

The preparation of 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 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.

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. During fiscal years 2013 and 2012, the Company recognized approximately $381,000 and $388,000, respectively, in royalty income.

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 sheets.

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 $195,000 and $189,000 as of December 29, 2013 and December 30, 2012, respectively. Cash equivalents include credit card receivables because they are typically converted to cash within three to five days of the sales transaction.

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 the Company's 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. As of December 29, 2013 and December 30, 2012, the Company had $21,394 and $96,752, respectively, recorded within royalties receivable and $174,971 and $199,740, respectively, recorded within other receivables as an allowance for doubtful accounts on the consolidated balance sheets.

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 expenses

Pre-opening expenses primarily consist of hiring and training employees associated with the opening of a new restaurant and are expensed as incurred. Pre-opening expenses of $21,536 were incurred during fiscal year 2013 related to the opening of the new Casa Olé location.

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 sheets.

As of December 29, 2013 and December 30, 2012, assets related to discontinued operations of $20,576 and $55,645 consisted of rents 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 sub-leased to a third-party in 2009 and which expire in 2019.

Liabilities associated with leasing and exit activities consisted primarily of accrued closure costs related to (a) a non-interest bearing note payable made in 2011 to exit a lease (discussed in the following paragraph), (b) the closure of a company-operated restaurant in December 2012 for which the lease expired in June 2013, (c) the closure of a company-operated restaurant in November 2013 for which the lease expires in September 2014, and (d) rent differentials for two other closed restaurants for which the Company had subleased the restaurants through June and October 2013. 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.

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 36 equal monthly installments and contains a penalty clause that increases the principal to $600,000 if the Company defaults on the note. As of December 29, 2013 and December 30, 2012, the Company owed $11,111 and $66,667 for this obligation. The balance of the obligation matures in the first quarter of 2014.

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. The depreciable lives are as follows:

Leasehold improvements	2 - 17 years
Buildings	39 years
Vehicles	5 years
Equipment	3 - 15 years

Upon opening 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 are capitalized if they extend the utility or useful life of the asset. 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 consists of the following:

	Dec 29, 2013	Dec 30, 2012
Land	$ 622,098	$ 54,750
Building and improvements	984,912	-
Construction in process	-	29,753
Vehicles	21,852	16,874
Equipment and smallwares	19,490,418	19,314,622
Leasehold improvements	16,708,627	16,327,522
	37,827,907	35,743,521
Less: accumulated depreciation and amortization	(25,900,328)	(24,783,690)
Property and equipment, net	$ 11,927,579	$ 10,959,831

Impairment and restaurant closure expense

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 $214,085 during fiscal year 2013 primarily related to asset impairments for two under-performing operating restaurants. Impairment expense of $1,061,302 during fiscal year 2012 primarily related to asset impairments for four under-performing operating restaurants and to another restaurant that the Company relocated in fiscal year 2013.

Restaurant closure expense of $99,819 during 2013 primarily related to lease obligations related to the closure of an underperforming restaurant during 2013. Restaurant closure expense of $95,744 during 2012 primarily related to lease obligations related to the closure of an underperforming restaurant during 2012.

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 approximately $1,121,000 and $1,047,000 for fiscal years 2013 and 2012, respectively, and is recorded within restaurant operating expenses on the consolidated statements of operations.

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 amortized over the terms of the operating leases, which were 15 years each. The deferred gain at December 29, 2013 and December 30, 2012 was $-0- and $93,352, respectively. Subsequent to the original transaction, eight of the leases were terminated. The remaining five leases have a total future minimum lease obligation of $2,201,959 and are included in the future minimum lease payment schedule below.

Commitments and contingencies

Leases – 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 under non-cancelable operating leases as of December 29, 2013 are as follows:

Fiscal year ending	
2014	$ 4,302,370
2015	4,031,091
2016	3,665,845
2017	3,259,380
2018	2,192,138
Thereafter	7,218,583
Total	$ 24,669,407

Total rent expense for restaurant operating space and equipment amounted to $5,509,940 and $5,499,535 for fiscal years 2013 and 2012, respectively, and is included with restaurant operating expenses in the consolidated statements of operations.

Litigation – 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 consolidated balance sheets, 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 2009 and, thereafter, are subject to examination by taxing authorities in accordance with the normal statutes of limitations in the applicable jurisdictions.

The components of income tax (expense) benefit are as follows for fiscal years 2013 and 2012:

	Dec 29, 2013	Dec 30, 2012
Current:		
Federal	$ 7,951	$ (7,951)
State and local	(140,284)	(139,612)
Deferred	61,028	476,819
	$ (71,305)	$ 329,256

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

	Dec 29, 2013	Dec 30, 2012
Expected tax (expense) benefit	$ (285,055)	$ 118,760
State tax expense	(92,650)	(93,720)
Tax credits	314,412	320,125
Other	(8,012)	(15,909)
	$ (71,305)	$ 329,256

Deferred tax assets consisted of the following at December 29, 2013 and December 30, 2012:

	Dec 29, 2013	Dec 30, 2012
Deferred tax assets:		
Tax credit carryforwards	$ 3,253,114	$ 2,776,732
Stock compensation differences	55,184	58,095
Other	24,603	31,153
Capital losses	146,760	146,760
Bad debt expense	78,763	112,807
Goodwill amortization differences	497,691	590,614
Asset impairments	214,085	561,676
Depreciation differences	781,842	610,704
Net operating losses (NOL's)	474,324	527,569
Sale-leaseback	-	31,739
Accrued expenses	105,546	127,533
	5,631,912	5,575,382
Valuation allowances	(706,760)	(706,760)
Net deferred tax assets	$4,925,152	$4,868,622

At December 29, 2013 and December 30, 2012, the Company had federal tax credit carryforwards of approximately $3.3 million and $2.8 million, respectively, and federal NOL carryforwards of approximately $1.4 million and $1.6 million, respectively, all of which expire in years through 2032 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.

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, officers, 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.

Reclassification

Certain accounts in the prior year statement of operations have been reclassified for comparative purposes to conform to the presentation in the current year consolidated statements of operations. These reclassifications had no effect on results from operations.

Recent accounting pronouncements

The Company has implemented all new accounting pronouncements and does not believe that there are any other new accounting pronouncements that have been issued that may have a material impact on the financial statements.

(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 stockholders 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. 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 stockholders.

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 December 29, 2013.

	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 stockholders	227,500	$10.95	62,500

(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 fiscal years 2013 and 2012:

	Options Granted		Options Exercisable	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at Jan 1, 2012	238,600	$ 10.36	216,600	$ 10.57
Vested	-	-	22,000	8.28
Canceled/forfeited	(8,225)	3.80	(8,225)	3.80
Outstanding options at Dec 30, 2012	230,375	10.60	230,375	10.60
Vested	-	-	-	-
Canceled/forfeited	(10,375)	3.11	(10,375)	3.11
Outstanding options at Dec 29, 2013	220,000	$ 10.95	220,000	$ 10.95

Information relating to significant option groups outstanding at December 29, 2013 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
$6.59–9.00	60,000	3.48	$ 8.15	60,000	3.48	$ 8.15
$12.00	160,000	1.92	12.00	160,000	1.92	12.00
$6.59–12.00	220,000	2.34	$ 10.95	220,000	2.34	$ 10.95

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 years 2013 and 2012, there were no stock options exercised. The 220,000 options outstanding at December 29, 2013 had exercise prices ranging from $6.59 to $12.00, of which 160,000 of the options had exercise prices of $12.00. As of December 29, 2013, 220,000 options were vested and exercisable.

The Company did not grant any stock options during fiscal years 2013 or 2012. As of December 30, 2012, all stock option awards were fully vested, therefore, the Company had no unrecognized stock-based compensation.

(b) Restricted Stock Activity

The following table reflects the restricted stock activity during 2013 and 2012.

	Shares	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (years)
Unvested at beginning of 2012	37,500	$ 2.89	
Vested	(18,500)		
Unvested at end of 2012	19,000	2.01	1.18
Cancelled	(3,000)		
Vested	(8,500)		
Unvested at end of 2013	7,500	$ 1.73	.83

The unvested restricted share awards were valued from $1.35 to $2.50 per share based on the grant date stock price and vest over 0.5 to 1.5 years. As of December 29, 2013, the unrecognized stock-based compensation expense associated with unvested restricted shares was $7,068 and will be recognized over an average period of .83 years. During 2013, 7,500 treasury shares were issued for restricted stock which vested during 2013 with the remaining 1,000 shares issued during the first quarter of 2014. During 2012, 18,500 treasury shares were issued for restricted stock which vested during 2012.

(4) Debt

Long-term debt consisted of the following at December 29, 2013 and December 30, 2012:

	Dec 29, 2013	Dec 30, 2012
Revolving credit facility with primary bank, expiring June 28, 2016, interest at 3.70% and 5.00%, respectively	$ 1,900,000	$ 2,000,000
Subordinated promissory note with a financial institution, expiring April 14, 2020, interest at 5.50%.	1,280,000	-
	3,180,000	2,000,000
Less: current portion	(23,887)	(2,000,000)
Total long-term debt, net	$ 3,156,113	$ -

Maturities of long-term debt are as follows:

Fiscal year ending	
2014	$ 23,887
2015	37,509
2016	1,939,625
2017	41,860
2018	44,222
Thereafter	1,092,897
Total	$ 3,180,000

The Company entered into a credit agreement (the “Agreement”) with a financial institution (primary bank) in June 2007 that was last amended on February 23, 2012. The amended terms and conditions primarily redefined certain financial ratio limits. As of December 30, 2012, the amended Agreement provided for a revolving credit facility of up to $2,800,000 which was reduced by $275,000 on the first day of each fiscal quarter. When the Agreement expired on June 28, 2013, the Company entered into an Amended and Restated Credit Agreement (Amended Agreement), which provides for a revolving credit facility of up to $3,000,000 and a development credit facility of up to $1,500,000. The revolving credit facility expires on June 28, 2016 and the development credit facility expires on June 28, 2015.

The Amended Agreement bears interest, which is payable quarterly in arrears. Interest rates available under the Amended Agreement may be selected from two options that allow the Company to borrow at rates ranging from the bank’s base rate plus 2.50% or a rate derived from the London InterBank Offered Rate (LIBOR) plus 3.50%. The Company is subject to a non-use fee of 0.50% on the unused portion of the revolving and development credit facilities from the date of the Amended Agreement. At December 29, 2013, the development credit facility had no amounts outstanding (see *Note 10* for further discussion).

The Amended Agreement is secured by the stock of the Company's subsidiaries, leasehold interests, patents and trademarks and furniture, fixtures and equipment and includes various covenants including, but not limited to, financial covenants requiring fixed charge coverage ratios and leverage ratios.

On October 31, 2012, the Company obtained a "Limited Waiver and Consent" from the primary bank in order to secure financing from another financial institution to build a new Casa Olé restaurant. The waiver was subsequently amended to increase the borrowing limit which allowed the Company to borrow up to $1,280,000 for the project. The promissory note allowed for draws during the construction process with interest only payments during the first twelve months at LIBOR plus 3.50% and then the loan converts to fixed monthly payments at 5.50% annual interest over a 20-year period with a balloon payment due in six years. The Company also entered into an interest rate swap agreement related to the promissory note commencing May 2014, maturing April 2020, with a floating rate equal to the one month LIBOR plus 3.50%. The promissory note is subject to covenant restrictions similar to those in the Amended Agreement, and is secured by the land, building, furniture, fixtures and equipment of the new Casa Ole restaurant.

(5) Related party transactions

In 2007, the Company sold a store to a director of the Company. The restaurant operations were taken over by Mr. Forehand after the close of business on July 1, 2007. This store currently operates under the Company's uniform franchise agreement and is subject to a monthly royalty fee. For the fiscal years ended December 29, 2013 and December 30, 2012, the Company recognized royalty income of $21,358 and $20,967, respectively, related to this site.

(6) Accrued expenses

Accrued expenses consist of the following:

	Dec 29, 2013	Dec 30, 2012
Property taxes	$ 407,862	$ 486,017
Group insurance	209,003	203,221
Contingent lease rent	119,403	95,880
Other	210,197	206,625
Totals	$946,465	$991,743

(7) Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	Dec 29, 2013	Dec 30, 2012
Triple net lease rent	$ 437,908	$ 485,490
Property insurance	171,286	183,528
Licenses	124,324	62,152
Other	37,521	40,630
Totals	$ 771,039	$ 771,800

(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 years 2013 and 2012.

(9) Stockholders' equity

Common Stock 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. 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.

Preferred stock and warrants

On April 11, 2011, the Company received $1,000,000 in cash in exchange for 800,000 Series A preferred 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 preferred shares have a par value of $0.01 per share and a stated value of $1.25 per share and may be converted to common stock on a one-for-one basis. The non-transferable share warrants have an exercise price of $2.00 per share.

Preferred stock dividends accrue at 8% per annum, compounding quarterly, to be paid by issuing additional shares of Series A preferred shares in lieu of cash. Dividends on preferred stock are in preference to and prior to any payment of any dividend on common stock.

In case of liquidation, dissolution or winding up of the Company, after the preferential amounts, if any, to which the holders of Preferred Stock may be entitled, the holders of all outstanding shares of common stock shall be entitled to share ratably in the remaining net assets of the Company.

The holders of the Series A preferred shares have voting rights provided by the Texas Business Organization Code as well as additional rights as defined in the designating resolutions.

(10) Subsequent Events

In February 2014, the Company amended the Articles of Incorporation to increase the authorized shares to 21,400,000, of which 20,200,000 shall be designated as common stock and 1,200,000 shares shall be designated as preferred stock.

On March 18, 2014, Williston Holding Company, Inc. (WHC) acquired approximately 80% of the Company in a series of private transactions with certain controlling stockholders of the Company at a price of $4.06 per share. As part of the transaction, the Company's outstanding revolving credit facility totaling $1,500,000 was repaid in full by one of the selling stockholders in exchange for a note obligation to the stockholder in the same amount.

In a separate transaction, the Company has entered into a Merger Agreement with WHC pursuant to which the remaining approximate 20% of the Company stockholders will receive $4.06 per share in cash. This merger is expected to close in the second quarter of 2014. Following the merger, WHC will own 100% of the Company. In conjunction with the transaction above, the Company entered into a management fee agreement with WHC where it will pay a monthly fee of 2.50% of total revenue to WHC.

Management has evaluated subsequent events through March 26, 2014, the date which the financial statements were available to be issued.