Unaudited Interim Consolidated Financial Statements and Footnotes

April 1, 2012

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		(unaudited) Apr 1, 2012		Jan 1, 2012
ASSETS				
Current assets:				
Cash	$	1,383,551	$	804,816
Royalties receivable, net		83,412		99,722
Other receivables, net		81,709		120,910
Inventory		544,398		530,537
Prepaid expenses and other current assets		740,499		974,495
Assets related to discontinued operations, net		100,000		100,000
Total current assets		2,933,568		2,630,480
Property and equipment, net		12,618,200		12,939,426
Deferred tax assets		4,583,371		4,506,060
Other assets, net		102,945		107,706
Other assets related to discontinued operations		33,878		33,878
Total assets	$	20,271,962	$	20,217,550
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable		2,327,789		2,350,811
Accrued sales and liquor taxes		115,614		107,036
Accrued payroll and related taxes		871,106		715,351
Accrued expenses		682,470		1,061,439
Income taxes payable		230,845		135,362
Current portion of liabilities associated with leasing and exit activities		107,839		117,050
Total current liabilities		4,335,664		4,487,049
Long-term debt		2,800,000		3,000,000
Liabilities associated with leasing and exit activities, net of current portion		88,965		115,899
Deferred gain		260,179		312,215
Deferred rent		1,765,737		1,809,244
Total liabilities		9,250,545		9,724,407
Commitments and contingencies				
Stockholders' equity:				
Series A Convertible Preferred stock, $.01 par value, 1,000,000 shares authorized, 855,704 and 838,790 shares issued and outstanding at 4/1/12 and 1/1/12, respectively		8,557		8,388
Additional paid-in capital-preferred stock		960,967		952,679
Common stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued, 3,463,099 and 3,463,099 shares outstanding at 4/1/2012 and 1/1/2012, respectively		47,327		47,327
Additional paid-in capital-common stock		18,503,406		18,471,716
Retained earnings		2,751,627		2,263,500
Treasury stock at cost, 1,269,606 and 1,269,606 common shares at 4/1/2012 and 1/1/2012, respectively		(11,250,467)		(11,250,467)
Total stockholders' equity		11,021,417		10,493,143
Total liabilities and stockholders' equity	$	20,271,962	$	20,217,550

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the first quarter ended April 1, 2012 and April 3, 2011

	Apr 1, 2012	Apr 3, 2011
Revenues:		
Restaurant sales	$ 17,317,571	$ 16,797,787
Franchise fees, royalties and other	107,452	121,586
	17,425,023	16,919,373
Costs and expenses:		
Cost of sales	4,869,283	4,931,045
Labor	5,821,988	5,793,690
Restaurant operating expenses	4,272,952	3,999,765
General and administrative	1,229,782	1,492,996
Depreciation and amortization	655,428	804,635
Loss on sale of property and equipment	17,245	15,263
	16,866,679	17,037,394
Operating income (loss)	558,345	(118,021)
Other income (expense):		
Interest income	535	528
Interest expense	(48,071)	(65,396)
Other, net	3,653	(967)
	(43,883)	(65,835)
Income (loss) before income taxes	514,461	(183,856)
Income tax (expense) benefit	(17,876)	93,844
Net income (loss)	$ 496,585	$ (90,012)

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the first quarter ended April 1, 2012

	Preferred Stock	APIC-PS	Common Stock	APIC-CS	Retained Earnings	Treasury Stock	Total Stockholders' equity
Balances at January 1, 2012	$8,388	$952,679	$47,327	$18,471,716	$2,263,500	$(11,250,467)	$10,493,143
Dividends on preferred stock	169	8,288			(8,457)		-
Stock based compensation expense				31,690			31,690
Net income					496,585		496,585
Balances at April 1, 2012	$8,557	$960,967	$47,327	$18,503,406	$2,751,628	$(11,250,467)	$11,021,418

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the quarters ended April 1, 2012 and April 3, 2011

	Apr 1, 2012	Apr 3, 2011
Cash flows from operating activities:		
Net income (loss)	$ 496,585	$ (90,012)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	655,428	804,635
Deferred gain amortization	(52,036)	(52,035)
Loss on sale of property & equipment	17,245	15,263
Stock based compensation expense	31,690	43,993
Deferred income tax benefit	(77,311)	(151,657)
Changes in operating assets and liabilities		
Royalties receivable	16,310	(18,322)
Other receivables	39,201	27,067
Inventory	(13,862)	(17,604)
Income taxes receivable/payable	95,483	48,373
Prepaid and other current assets	233,996	138,451
Other assets	367	(16,167)
Accounts payable	(23,022)	173,942
Accrued expenses and other liabilities	(214,635)	(167,300)
Liabilities associated with leasing and exit activities	(36,145)	(68,645)
Deferred rent and other long-term liabilities	(43,508)	(40,754)
Total adjustments	629,203	719,240
Net cash provided by continuing operations	1,125,788	629,228
Net cash used in discontinued operations	-	(3,180)
Net cash provided by operating activities	1,125,788	626,048
Cash flows from investing activities:		
Purchase of property and equipment	(347,053)	(288,808)
Proceeds from sale of property and equipment	-	3,871
Net cash used in investing activities	(347,053)	(284,937)
Cash flows from financing activities:		
Borrowings under line of credit agreement	500,000	-
Payments under line of credit agreement	(700,000)	-
Net cash used in financing activities	(200,000)	-
Net increase in cash	578,735	341,111
Cash at beginning of period	804,816	678,798
Cash at end of period	$ 1,383,551	$ 1,019,909
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$ 46,008	$ 64,059
Income taxes	$ -	$ 20,000

1. Basis of presentation

In the opinion of Mexican Restaurants, Inc. (the "Company"), the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals and adjustments) necessary for a fair presentation of the consolidated financial position and stockholders' equity as of April 1, 2012, and the consolidated statements of operations and cash flows for the 13-week periods ended April 1, 2012 and April 3, 2011. The consolidated statements of operations for the 13-week periods ended April 1, 2012 and April 3, 2011 are not necessarily indicative of the results to be expected for the full year or any other interim period. During the interim periods, the Company follows the accounting policies described in the notes to the consolidated financial statements in its "Audited Consolidated Financial Statements and Footnotes" for the year ended January 1, 2012. Reference should be made to such consolidated financial statements for information on such accounting policies and further financial detail.

The Company classifies as discontinued operations for all periods presented any component of the Company's business that the Company believes is probable of being sold within the next 12 months and that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes. For those components, the Company has no significant continuing involvement after disposal, and their operations and cash flows are eliminated from ongoing operations. Sales of significant components of the Company's business not classified as discontinued operations are reported as a component of income from continuing operations.

2. Income taxes

In determining the provision for income taxes, the Company uses an estimated annual effective tax rate based on forecasted annual income and permanent items, statutory tax rates and tax planning opportunities in the various jurisdictions in which the Company operates. The impact of significant discrete items is separately recognized in the quarter in which they occur.

3. 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. The Company's stock-based compensation plans are described in more detail in Note 3 of the "Audited Consolidated Financial Statements and Footnotes" for the fiscal year ended January 1, 2012.

The Company receives a tax deduction for certain stock option exercises during the period in which the options are exercised. These deductions are generally for the excess of the price for which the options were sold over the exercise prices of the options. No stock options were exercised during the 13-week periods ended April 1, 2012 and April 3, 2011.

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 April 1, 2012, the amended Agreement provided for a revolving loan of up to $3.625 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 April 1, 2012, the Company's outstanding debt to the financial institution was $2.8 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. The Company was in compliance with all debt covenants of the agreement as of April 1, 2012.

5. Related party transactions

The Company's Vice Chairman of the Board of Directors owns a Casa Olé franchise restaurant for which the Company receives royalties. For the 13-week periods ended April 1, 2012 and April 3, 2011, the Company recognized royalty income of $5,392 and $5,633, respectively, related to this restaurant.

6. Discontinued operations and leasing exit activities

The results of operations, assets and liabilities for all units that have been disposed of, either individually or in the aggregate, are reclassified to discontinued operations and to liabilities associated with leasing and exit activities in the consolidated statements of operations and balance sheets for all periods presented.

As of April 1, 2012, assets related to discontinued operations of $100,000 consisted of rent receivable from a subleased restaurant that has 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 a non-interest bearing note payable made in 2011 to exit a lease (see details below) and of rent differential for two other closed restaurants for which the Company has subleased the restaurants. Rent differential represents 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 thirty-six equal monthly installments beginning April 1, 2011 and contains a penalty clause that increases the principal to $600,000, if the Company defaults on the note.

7. Franchisee activities

As of April 1, 2012, the Company had seven Casa Ole franchisees operating a total of 13 restaurants.

8. Subsequent events

On April 3, 2012, the Company entered into a promissory note receivable with one of its franchisees for past due royalties of approximately $56,000 to be paid over a period of three years.

On April 26, 2012, the Company paid $200,000 to its financial institution for principal on the line of credit agreement.

On May 3, 2012, the Company entered into a settlement agreement and promissory note receivable with a sublessee for past due rents totaling $175,000. A down payment of $25,000 was received along with a $150,000 promissory note receivable to be paid over a period of four years.

Management has evaluated subsequent events through May 14, 2012, the date which the financial statements were available to be issued.