MEXICAN RESTAURANTS, INC.

Unaudited Interim Consolidated Financial Statements and Footnotes

March 31, 2013

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2013 and December 30, 2012

	(unaudited) 3/31/2013	12/30/2012
ASSETS		
Current assets:		
Cash	$ 1,027,084	$ 1,249,409
Royalties receivable, net	70,842	57,605
Other receivables, net	124,104	115,859
Inventory	576,919	546,741
Prepaid expenses and other current assets	690,022	771,800
Assets related to discontinued operations, net	47,106	55,645
Total current assets	2,536,077	2,797,059
Property and equipment, net	11,332,529	10,959,831
Deferred tax assets	4,963,877	4,868,622
Other assets, net	83,897	88,659
Other assets related to discontinued operations	33,878	33,878
Total assets	$ 18,950,258	$ 18,748,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 2,000,000	$ 2,000,000
Accounts payable	2,470,243	2,417,019
Accrued sales and liquor taxes	110,139	107,404
Accrued payroll and related taxes	831,991	762,048
Accrued expenses	607,256	991,743
Income taxes payable	237,447	149,951
Current portion of liabilities associated with leasing and exit activities	128,932	181,367
Total current liabilities	6,386,008	6,609,532
Long-term debt	150,000	-
Liabilities associated with leasing and exit activities, net of current portion	-	11,111
Deferred gain	46,676	93,352
Deferred rent	1,538,107	1,595,439
Total liabilities	8,120,791	8,309,434
Commitments and contingencies	-	-
Stockholders' equity:		
Series A Convertible Preferred stock, $.01 par value, 1,000,000 shares authorized, 926,442 and 908,131 shares issued and outstanding at 3/31/13 and 12/30/12, respectively	9,266	9,081
Additional paid-in capital-preferred stock	1,022,670	1,003,628
Common stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued, 3,481,599 and 3,481,599 shares outstanding at 3/31/2013 and 12/30/2012, respectively	47,327	47,327
Additional paid-in capital-common stock	18,279,030	18,273,317
Retained earnings	2,557,731	2,191,819
Treasury stock at cost, 1,251,106 and 1,251,106 common shares at 3/31/2013 and 12/30/2012, respectively	(11,086,557)	(11,086,557)
Total stockholders' equity	10,829,467	10,438,615
Total liabilities and stockholders' equity	$ 18,950,258	$ 18,748,049

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the first quarters ended March 31, 2013 and April 1, 2012

	3/31/2013	4/1/2012
Revenues:		
Restaurant sales	$ 16,896,636	$ 17,317,571
Franchise fees, royalties and other	99,054	107,452
	16,995,690	17,425,023
Costs and expenses:		
Cost of sales	4,819,403	4,869,283
Labor	5,761,865	5,821,988
Restaurant operating expenses	4,136,179	4,272,952
General and administrative	1,315,491	1,229,782
Depreciation and amortization	561,538	655,428
Loss on sale of property and equipment	805	17,245
	16,595,281	16,866,678
Operating income	400,409	558,345
Other income (expense):		
Interest income	3,185	535
Interest expense	(28,960)	(48,071)
Other, net	2,746	3,653
	(23,029)	(43,883)
Income before income taxes	377,380	514,462
Income tax (expense) benefit	7,759	(17,876)
Net income	$ 385,139	$ 496,586

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the first quarter ended March 31, 2013

	Preferred Stock	APIC-PS	Common Stock	APIC-CS	Retained Earnings	Treasury Stock	Total Stockholders' equity
Balances at December 30, 2012	$9,081	$1,003,628	$47,327	$18,273,317	$2,191,819	($11,086,557)	$10,438,615
Dividends on preferred stock	185	19,042			(19,227)		-
Stock based compensation expense				5,713			5,713
Net income					385,139		385,139
Balances at March 31, 2013	$9,266	$1,022,670	$47,327	$18,279,030	$2,557,731	($11,086,557)	$10,829,467

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the first quarters ended March 31, 2013 and April 1, 2012

	3/31/2013	4/1/2012
Cash flows from operating activities:		
Net income	$ 385,139	$ 496,585
Adjustments to net income:		
Depreciation and amortization	561,538	655,428
Deferred gain amortization	(46,676)	(52,036)
Loss on sale of property & equipment	805	17,245
Stock based compensation expense	5,713	31,690
Deferred income tax benefit	(95,255)	(77,311)
Changes in operating assets and liabilities:		
Royalties receivable	(13,237)	16,310
Other receivables	(8,245)	39,201
Inventory	(30,178)	(13,862)
Income taxes payable	87,496	95,483
Prepaid and other current assets	81,778	233,996
Other assets	367	367
Accounts payable	53,224	(23,022)
Accrued expenses and other liabilities	(311,809)	(214,635)
Liabilities associated with leasing and exit activities	(63,546)	(36,145)
Deferred rent and other long-term liabilities	(57,332)	(43,508)
Total adjustments	164,643	629,201
Net cash provided by operations	549,782	1,125,786
Net cash provided by discontinued operations	8,539	-
Net cash provided by operating activities	558,321	1,125,786
Cash flows from investing activities:		
Purchase of property and equipment	(930,646)	(347,053)
Net cash used in investing activities	(930,646)	(347,053)
Cash flows from financing activities:		
Borrowings under line of credit agreement	500,000	500,000
Payments under line of credit agreement	(500,000)	(700,000)
Borrowings under subordinated debt agreement	150,000	-
Net cash provided by (used in) financing activities	150,000	(200,000)
Net increase (decrease) in cash	(222,325)	578,733
Cash at beginning of period	1,249,409	804,816
Cash at end of period	$ 1,027,084	$ 1,383,549
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$ 32,673	$ 46,008
Income taxes	$ -	$ -

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 March 31, 2013, and the consolidated statements of operations and cash flows for the 13-week periods ended March 31, 2013 and April 1, 2012. The consolidated statements of operations for the 13-week periods ended March 31, 2013 and April 1, 2012 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 December 30, 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 December 30, 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 March 31, 2013 and April 1, 2012.

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 September 30, 2012, the amended Agreement provided for a revolving loan of up to $3.075 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 March 31, 2013, the Company's outstanding debt to the financial institution was $2.0 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. The Company was in compliance with all debt covenants of the agreement as of March 31, 2013. The Company is currently negotiating with its financial institution the extension of its revolving loan.

The Company requested and received from its financial institution a limited waiver and consent amendment to its loan agreement in order to build a new restaurant in Pasadena, Texas. As allowed by the amendment, the Company has negotiated a loan with another financial institution for the construction of the new restaurant. The balance of the loan was $150,000 as of March 31, 2013. The loan allows for draws during the construction process with interest only payments during the first twelve months at LIBOR plus a stipulated percentage.

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 March 31, 2013 and April 1, 2012, the Company recognized royalty income of approximately $5,500 and $5,400, respectively, related to this restaurant.

6. 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 March 31, 2013 and December 30, 2012, assets related to discontinued operations of $47,106 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 assigned to a third party in 2009 and which expire in 2019.

Current liabilities related to leasing and exit activities consisted primarily of accrued closure costs related to (a) two non-interest bearing notes payable made in 2011 to exit two leases for a balance of $61,111 (discussed in the following paragraphs), (b) the closure of an underperforming company-operated restaurant in December 2012 for which the lease expires in June 2013 for a balance of $38,390 and (c) rent differentials for two other closed restaurants for which the Company has subleased the restaurants for a balance of $29,431. 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 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 was 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 was payable in twelve equal monthly installments. As of December 30, 2012, the obligation was paid in full.

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 March 31, 2013 and December 30, 2012, the Company owed $61,111 and $77,778 for this obligation. The balance of the obligation matures in February 2014.

7. Company-operated restaurant activities

The Company's primary source of revenues is the sale of food and beverages at company-operated restaurants. All of the company-operated restaurant sites are leased. Real estate for company-operated 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-operated restaurants have initial terms of 10 to 20 years with renewal options. As of March 31, 2013, company-operated locations consisted of 50 restaurants.

8. Franchisee-operated restaurant activities

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. One underperforming Casa Olé franchise location was closed during first quarter 2013.

9. Subsequent events

Management has evaluated subsequent events through May 2, 2013, the date which the financial statements were available to be issued.