

# MEXICAN RESTAURANTS INC

## FORM 8-K

(Current report filing)

Filed 11/13/07 for the Period Ending 11/08/07

|             |                                     |
|-------------|-------------------------------------|
| Address     | 1135 EDGEBROOK<br>HOUSTON, TX 77034 |
| Telephone   | 7139437574                          |
| CIK         | 0001009244                          |
| Symbol      | CASA                                |
| SIC Code    | 5812 - Eating Places                |
| Industry    | Restaurants                         |
| Sector      | Services                            |
| Fiscal Year | 12/28                               |

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 8, 2007



**MEXICAN RESTAURANTS, INC.**  
(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction  
of incorporation)

**000-28234**  
(Commission  
File Number)

**76-0493269**  
(IRS Employer  
Identification No.)

**1135 EDGEBROOK, HOUSTON, TEXAS 77034-1899**  
(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code): **(713) 943-7574**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On November 8, 2007, Mexican Restaurants, Inc. issued a press release announcing its financial results for its third quarter ended September 30, 2007. A copy of the press release is deemed to be furnished, but not filed, as Exhibit 99.1 hereto.

In accordance with General Instruction B.2 of Form 8-K, the information in this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

The following is furnished as Exhibit 99.1 to this Current Report on Form 8-K:

99.1 [Mexican Restaurants, Inc. press release dated November 8, 2007.](#)

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MEXICAN RESTAURANTS, INC.

Date: November 13, 2007

By: /s/ Andrew J. Dennard

Name: Andrew J. Dennard

Title: Executive Vice President, Chief Financial  
Officer, Treasurer and Corporate Secretary

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INDEX TO EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 99.1        | <a href="#">Mexican Restaurants, Inc. press release dated November 8, 2007</a> |



Contact: Mexican Restaurants, Inc.  
Andrew J. Dennard  
(713) 943-7574

**Mexican Restaurants, Inc.  
Announces 2007 Third Quarter Operating Results  
(NASDAQ:CASA)**

Houston, Texas (November 8, 2007) For the third quarter of fiscal year 2007 ended September 30, 2007, Mexican Restaurants, Inc. (Nasdaq: CASA) reported net income of \$88,750 or \$0.03 per diluted share, compared with net income of \$375,389 or \$0.10 per diluted share for the third quarter of fiscal year 2006. For the 39-week period ended September 30, 2007, the Company reported net income of \$149,088 or \$0.04 per diluted share, compared with net income of \$2,147,803 or \$0.59 per diluted share for the 39-week period of fiscal year 2006.

The Company's revenues for the third quarter of fiscal year 2007 increased \$646,096 or 3.2% to \$20.9 million compared with \$20.2 million for the same quarter in fiscal year 2006. Restaurant sales for the third quarter of fiscal 2007 increased \$667,962 or 3.3% to \$20.7 million compared with \$20.0 million for the third quarter of fiscal year 2006. Approximately half of the increase reflects positive same-store sales. The balance of the increase in revenue reflects one new restaurant addition and revenues from the Company's Mission Burritos stores that were acquired in August 2006. For the third quarter ended September 30, 2007, Company-owned same-restaurant sales increased approximately 1.8% and franchised-owned same-restaurant sales, as reported by franchisees, increased approximately 5.4%.

On a year-to-date basis, the Company's revenue increased \$370,683 or 0.6% to \$62.2 million compared with \$61.9 million for the same 39-week period in fiscal year 2006. Restaurant sales for 2007 year-to-date increased \$553,822 or 0.9% to \$61.7 million compared with \$61.2 million for the same 39-week period of fiscal year 2006. The increase in revenue reflects new restaurant additions and revenues from the Company's Mission Burritos stores, partially offset by an approximate \$1.5 million decline in same-store sales and the loss of sales of one closed restaurant for remodeling. For the 39-week period ended September 30, 2007, Company-owned same-restaurant sales decreased approximately 2.6% and franchised-owned same-restaurant sales, as reported by franchisees, increased approximately 1.9%.

Commenting on the Company's third quarter results, Curt Glowacki, Chief Executive Officer, stated, "I am very pleased with the return to positive same-store sales, and happy to report that the positive trend has strengthened in the first four weeks of the fourth quarter. In addition to this sales progress over the last quarter, we have also made continued financial progress. We have included with this press release pro forma financial information that we think will help you review the financial progress made during this time period."

Mr. Glowacki added, "In spite of the increase in the Federal minimum wage on July 24, 2007 which added approximately \$7,000 per week to our payroll costs, our management has done an excellent job in both the second and third quarter in offsetting labor cost by way of labor efficiency. However, we are still facing cost challenges, especially with food cost. Commodity prices are increasing at a faster rate than the rate we can increase our menu prices. The combined effects of all the food cost pressures has been a reduction in our third quarter controllable profit margins by 110 basis points. As we have stated before, if rising commodity prices continue, we will continue to selectively raise menu prices to the extent we can without risking a decline in customer traffic."

Mr. Glowacki also added, "We continue to be very excited about our Company's growth plans for Mission Burritos, our new fast casual concept. During the third quarter, we hired Chris Smith as Senior Vice President of Operations for Mission Burritos. He is doing a superb job leading the Mission Burritos team and the growth effort. With the help of Chris, we have refined the concept, and we expect the first two new Mission Burritos restaurants will open during the first quarter of fiscal year 2008."

The following table has been provided to reconcile the Company's net income, which is a measure based on GAAP ("generally accepted accounting principles"), for the quarters ended October 1, 2006 and September 30, 2007 to adjusted income, which is a non-GAAP measure. The adjusted income excludes the impact of the non-cash impairment charges, business interruption revenue, Hurricane Rita gain, loss on sale of assets, Sarbanes-Oxley consulting fees, write-off of prior debt loan fees, severance pay and executive search fees. The adjusted income has been included as it is deemed to provide meaningful, alternative information regarding the Company's third quarter performance for 2006 and 2007. The non-GAAP measure is not in accordance with, or a substitute for, GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies, and is not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

| <b>Non-GAAP Calculation</b>  | <b>13-Week<br/>Period<br/>Ended<br/>9/30/2007</b> | <b>13-Week<br/>Period<br/>Ended<br/>10/1/2006</b> | <b>39-Week<br/>Period<br/>Ended<br/>9/30/2007</b> | <b>39-Week<br/>Period<br/>Ended<br/>10/1/2006</b> |
|--|---|---|---|---|
| Income from continuing operations before income taxes              | \$ 87,077   | \$ 654,521  | \$ 325,493  | \$ 3,438,357                                      |
| Impairment costs   | 90,858  | 17,458  | 90,858  | 95,589  |
| Business Interruption Proceeds                                     | --  | --  | --  | (59,621)  |
| Hurricane Rita Gains   | --  | --  | --  | (366,808)   |
| (Gain) loss on sale of assets                                      | 107,819   | 7,156   | 199,501   | (3,797)   |
| Sarbanes-Oxley consulting fees                                     | 38,791  | --  | 51,009  | --  |
| Severance pay  | --  | --  | 98,515  | --  |
| Write-off of prior debt loan fees                                  | --  | --  | 25,000  | --  |
| Executive search fees  | 26,000  | --  | 57,250  | --  |
| Income from continuing operations before income taxes, as adjusted | <u>350,545</u>                                    | <u>679,135</u>                                    | <u>847,626</u>                                    | <u>3,103,720</u>                                  |
| Income tax expense   | (46,728)  | 208,019   | 166,135   | 1,032,608   |
| Income from continuing operations, as adjusted                     | <u>397,273</u>                                    | <u>471,116</u>                                    | <u>681,491</u>                                    | <u>2,071,112</u>                                  |
| Loss from discontinued operations, net of taxes                    | <u>(9,938)</u>                                    | <u>(78,640)</u>                                   | <u>(112,622)</u>                                  | <u>(146,661)</u>                                  |
| Net Income, as adjusted  | <u>\$ 387,335</u>                                 | <u>\$ 392,476</u>                                 | <u>\$ 568,869</u>                                 | <u>\$ 1,924,451</u>                               |
| Weighted average number of shares (diluted)                        | <u>3,463,126</u>                                  | <u>3,633,868</u>                                  | <u>3,438,601</u>                                  | <u>3,647,249</u>                                  |
| Diluted income per share, as adjusted                              | <u>\$ 0.11</u>                                    | <u>\$ 0.11</u>                                    | <u>\$ 0.17</u>                                    | <u>\$ 0.53</u>                                    |

Mexican Restaurants, Inc. operates and franchises 78 Mexican restaurants. The current system includes 58 Company-operated restaurants, 19 franchisee operated restaurants and one licensed restaurant.

#### **Special Note Regarding Forward-Looking Statements**

*This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: growth strategy; dependence on executive officers; geographic concentration; increasing susceptibility to adverse conditions in the region; changes in consumer tastes and eating habits; national, regional or local economic and real estate conditions; demographic trends; inclement weather; traffic patterns; the type, number and location of competing restaurants; inflation; increased food, labor and benefit costs; the availability of experienced management and hourly employees; seasonality and the timing of new restaurant openings; changes in governmental regulations; dram shop exposure; and other factors not yet experienced by the Company. The use of words such as "believes", "anticipates", "expects", "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are urged to carefully review and consider the various disclosures made by the Company in this release and in the Company's most recent Annual Report and Form 10-K, that attempt to advise interested parties of the risks and factors that may affect the Company's business.*

Mexican Restaurants, Inc. and Subsidiaries

Consolidated Statements of Income  
(Unaudited)

|   | 13-Week<br>Period<br>Ended<br><u>9/30/2007</u> | 13-Week<br>Period<br>Ended<br><u>10/1/2006</u> | 39-Week<br>Period<br>Ended<br><u>9/30/2007</u> | 39-Week<br>Period<br>Ended<br><u>10/1/2006</u> |
|---|--|--|--|--|
| Revenues:   |  |  |  |  |
| Restaurant sales                                      | \$ 20,713,643                                  | \$ 20,045,681                                  | \$ 61,741,934                                  | \$ 61,188,112                                  |
| Franchise fees, royalties and other                   | 173,637  | 195,503  | 505,598  | 629,116  |
| Business interruption                                 | -  | -  | -  | 59,621   |
|   | <u>20,887,280</u>                              | <u>20,241,184</u>                              | <u>62,247,532</u>                              | <u>61,876,849</u>                              |
| Costs and expenses:                                   |  |  |  |  |
| Cost of sales   | 5,929,587                                      | 5,521,942                                      | 17,572,761                                     | 16,827,805                                     |
| Labor   | 6,726,294                                      | 6,588,986                                      | 20,206,367                                     | 19,762,053                                     |
| Restaurant operating expenses                         | 5,095,089                                      | 4,866,542                                      | 15,273,881                                     | 14,144,913                                     |
| General and administrative                            | 1,855,287                                      | 1,703,966                                      | 5,690,916                                      | 5,403,634                                      |
| Depreciation and amortization                         | 866,678  | 796,976  | 2,544,913                                      | 2,276,928                                      |
| Pre-opening costs                                     | 2,777  | -  | 22,771   | 64,248   |
| Impairment costs                                      | 90,858   | 17,458   | 90,858   | 95,589   |
| Hurricane Rita gain                                   | -  | -  | -  | (366,808)                                      |
| (Gain) loss on sale of assets                         | 107,819  | 7,156  | 199,501  | (3,797)  |
|   | <u>20,674,389</u>                              | <u>19,503,026</u>                              | <u>61,601,968</u>                              | <u>58,204,565</u>                              |
| Operating income                                      | <u>212,891</u>                                 | <u>738,158</u>                                 | <u>645,564</u>                                 | <u>3,672,284</u>                               |
| Other income (expense):                               |  |  |  |  |
| Interest income                                       | 4,835  | 4,349  | 8,658  | 5,609  |
| Interest expense                                      | (139,056)                                      | (109,230)                                      | (362,639)                                      | (308,222)                                      |
| Other, net  | 8,407  | 21,244   | 33,910   | 68,686   |
|   | <u>(125,814)</u>                               | <u>(83,637)</u>                                | <u>(320,071)</u>                               | <u>(233,927)</u>                               |
| Income from continuing operations before income taxes | 87,077   | 654,521  | 325,493  | 3,438,357                                      |
| Income tax expense (benefit)                          | (11,611)                                       | 200,492  | 63,783   | 1,143,893                                      |
| Income from continuing operations                     | <u>98,688</u>                                  | <u>454,029</u>                                 | <u>261,710</u>                                 | <u>2,294,464</u>                               |
| Discontinued Operations:                              |  |  |  |  |
| Income (loss) from discontinued operations            | -  | (125,018)                                      | 3,090  | (230,913)                                      |
| Restaurant closure costs                              | (15,767)                                       | -  | (185,316)                                      | -  |
| Gain (loss) on sale of assets                         | -  | (573)  | 3,412  | (3,310)  |
| Loss from discontinued operations before income taxes | <u>(15,767)</u>                                | <u>(125,591)</u>                               | <u>(178,814)</u>                               | <u>(234,223)</u>                               |
| Income tax benefit                                    | 5,829  | 46,951   | 66,192   | 87,562   |
| Loss from discontinued operations                     | <u>(9,938)</u>                                 | <u>(78,640)</u>                                | <u>(112,622)</u>                               | <u>(146,661)</u>                               |
| Net income  | <u>\$ 88,750</u>                               | <u>\$ 375,389</u>                              | <u>\$ 149,088</u>                              | <u>\$ 2,147,803</u>                            |
| Basic income (loss) per share                         |  |  |  |  |
| Income from continuing operations                     | \$ 0.03  | \$ 0.13  | \$ 0.07  | \$ 0.67  |
| Loss from discontinued operations                     | -  | (0.02)   | (0.03)   | (0.04)   |
| Net income  | <u>\$ 0.03</u>                                 | <u>\$ 0.11</u>                                 | <u>\$ 0.04</u>                                 | <u>\$ 0.63</u>                                 |
| Diluted income (loss) per share                       |  |  |  |  |
| Income from continuing operations                     | \$ 0.03  | \$ 0.12  | \$ 0.07  | \$ 0.63  |
| Loss from discontinued operations                     | -  | (0.02)   | (0.03)   | (0.04)   |
| Net income  | <u>\$ 0.03</u>                                 | <u>\$ 0.10</u>                                 | <u>\$ 0.04</u>                                 | <u>\$ 0.59</u>                                 |
| Weighted average number of shares (basic)             | <u>3,418,669</u>                               | <u>3,400,944</u>                               | <u>3,371,883</u>                               | <u>3,386,965</u>                               |
| Weighted average number of shares (diluted)           | <u>3,463,126</u>                               | <u>3,633,868</u>                               | <u>3,438,601</u>                               | <u>3,647,249</u>                               |



