

## Mexican Restaurants, Inc. Announces Second Quarter Results

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For the second quarter ended July 3, 2005, Mexican Restaurants, Inc. (Nasdaq:CASA) reported net income of \$502,174 or \$0.14 per diluted share, compared with second quarter 2004 net income of \$622,788 or \$0.17 per diluted share.

For the 26-week period ended July 3, 2005, the Company reported net income of \$1,177,321 or \$0.32 per diluted share, compared with the 26-week period of fiscal 2004 net income of \$1,153,580 or \$0.32 per diluted share.

The second quarter ended July 3, 2005 was impacted by depreciation and amortization expense, which was \$218,299 higher than the second quarter in fiscal 2004. The increase reflects a prospective adjustment to leasehold amortization, additional depreciation expense for remodeled restaurants, new restaurants and the replacement of equipment and leasehold improvements in various existing restaurants. The second quarter ended July 3, 2005 also reflects losses of \$131,201 related to the disposition of an office building that was acquired last year as part of the Beaumont-based franchisee stores and related assets acquired in January 2004 and the sale of a joint ventured restaurant. During the second quarter of fiscal 2004, the Company recorded losses of \$7,158 related to miscellaneous disposition of assets.

The Company's revenues for the second quarter of fiscal 2005 increased \$932,115 or 4.7% to \$20.7 million compared with \$19.7 million for the same quarter in fiscal 2004. Restaurant sales for second quarter 2005 increased \$960,332 or 4.9% to \$20.5 million compared with \$19.5 million for the second quarter of fiscal 2004. Approximately 50.5% of the increase reflects positive same-restaurant sales. For the second quarter ended July 3, 2005, total system same-restaurant sales increased 2.6%, Company-owned same-restaurant sales increased 2.4% and franchised-owned same-restaurant sales increased 3.4%. The remaining comparable increase in restaurant sales reflects new restaurant additions, less discontinued operations.

On a year-to-date basis, the Company's revenue was up \$2.3 million or 6.1% to \$40.9 million compared with \$38.6 million for the same 26-week period in fiscal 2004. Restaurant sales for the 26-week period of fiscal 2005 increased \$2.4 million or 6.2% to \$40.6 million compared with \$38.2 million for the same 26-week period of fiscal 2004. Approximately 46.5% of the increase reflects positive same-restaurant sales. For the 26-week period ended July 3, 2005, total system same-restaurant sales increased 2.8%, Company-owned same-restaurant sales increased 2.8% and franchised-owned same-restaurant sales increased 2.9%. The increase in restaurant sales also reflects 181 days of sales related to the Beaumont-based franchisee stores and related assets acquired in January 2004 in the 26-week period of fiscal 2005, compared with 172 days of sales in the 26-week period of fiscal 2004. The remaining comparable increase in restaurant sales reflects new restaurant additions, less discontinued operations.

Commenting on the Company's second quarter results for fiscal 2005, Curt Glowacki, Chief Executive Officer, stated, "The second quarter is our sixth straight quarter with positive same-store sales. Higher depreciation, amortization, pre-opening and losses from dispositions impacted net income for the second quarter. Excluding depreciation, amortization, pre-opening and losses from dispositions, adjusted operating income for the second quarter was 8.3% of total revenues, which is the same as the adjusted operating income for the second quarter a year ago. An unusually high level of litigation expense also impacted the second quarter of fiscal 2005 as the Company successfully defended an employee lawsuit. Near the end of the second quarter we opened a new restaurant that is surpassing our expectations and which has set a new company record for new restaurant weekly sales."

Lou Neeb, Chairman of the Board of Directors, stated, "What the success of our recent restaurant openings signifies to me is that the Company intends to be both a growth company and a profitably run company. Future restaurant openings will be deliberate and paced. That, along with our stock repurchase program, should enhance long-term shareholder value."

On May 9, 2005, the Company announced its plan to implement a limited stock repurchase program in a manner permitted under its bank financing agreement. Under this program, the Company could spend up to \$1.0 million over the next 12 months to repurchase outstanding shares of its common stock. The Company has entered into a repurchase plan designed to comply with Rules 10b5-1 and 10b-18 under the Securities and Exchange Act of 1934 under which an agent appointed by the Company will determine the time, amount, and price at which purchases of common stock will be made, subject to certain parameters established in advance by the Company. As of July 3, 2005, the Company repurchased 28,500 of its common stock for a total price of \$250,803. During this same period, Company employees exercised 35,975 options and the Company received \$122,160 in net proceeds. The shares acquired are being held for general corporate purposes, including the offset of the dilutive effect on shareholders from the exercise of stock options.

The following table has been provided to reconcile the Company's operating income for the quarters ended July 3, 2005 and June 27, 2004 to adjusted operating income. The adjusted operating income excludes depreciation and amortization, pre-opening costs, and loss on sale of assets.

	13-Week Period Ended	13-Week Period Ended
Reconciliation of Adjusted Operating Income	07/03/05	06/27/04
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Operating income as reported in 10Q	\$849,433	\$1,140,086
Add back:		
Depreciation and amortization	699,021	480,722
Pre-open costs	38,836	10,529
Loss on sale of assets	131,201	7,158
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Operating income, as adjusted	\$1,718,491	\$1,638,495
Operating income as a percentage of total sales	8.3%	8.3%

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