

Mexican Restaurants, Inc. Announces Second Quarter Operating Results

2006-08-08

For the second quarter ended July 2, 2006, Mexican Restaurants, Inc. (Nasdaq:CASA) reported net income of \$1,006,467 or \$0.27 cents per diluted share, compared with net income of \$502,174 or \$0.14 per diluted share for the second quarter of fiscal 2005.

For the 26-week period ended July 2, 2006, the Company reported net income of \$1,772,414 or \$0.48 per diluted share, compared with the 26-week period of fiscal 2005 net income of \$1,177,321 or \$0.32 per diluted share.

The second quarter ended July 2, 2006 includes the final settlement of the Hurricane Rita insurance claim. The consolidated statement of income ended July 2, 2006 includes a separate line item for a gain of \$386,270 resulting from assets damaged by Hurricane Rita offset by insurance proceeds for the replacement of assets. The Company also recorded \$59,621 as business interruption revenue related to the final Hurricane Rita insurance claim in the second quarter of fiscal 2006. Additionally, the Company recorded \$78,131 as restaurant closure costs related to the sale of a previously closed restaurant and a correction of \$80,000 in royalty income reflecting understated royalty income over the 16 previous quarters.

The Company's revenues for the second quarter of fiscal 2006 increased \$1.3 million or 6.2% to \$21.7 million compared with \$20.4 million for the same quarter in fiscal 2005. Restaurant sales for second quarter 2006 increased \$1.1 million or 5.5% to \$21.4 million compared with \$20.3 million for the second quarter of fiscal 2005. Approximately 80.0% of the increase in restaurant sales reflects the addition of one new restaurant and the full quarter impact of another new restaurant added at the end of second quarter 2005. The remainder of the increase reflects positive same-restaurant sales growth (the tenth consecutive quarter of positive same-restaurant sales). For the second quarter ended July 2, 2006, total system same-restaurant sales increased 0.3%, Company-owned same-restaurant sales increased 1.1% and franchised-owned same restaurant sales decreased 2.1%.

On a year-to-date basis, the Company's revenue was up \$2.9 million or 7.0% to \$43.4 million compared with \$40.5 million for the same 26-week period in fiscal 2005. Restaurant sales for the 26-week period ended July 2, 2006 increased \$2.7 million or 6.7% to \$42.9 million compared with \$40.2 million for the same 26-week period of fiscal 2005. Approximately 55.0% of the increase in restaurant sales reflects new restaurant additions; the remainder of the increase reflects positive same-restaurant sales growth. For the 26-week period ended July 2, 2006, total system same-restaurant sales increased 2.1%, Company-owned same-restaurant sales increased 3.1% and franchised-owned same-restaurant sales decreased 0.9%.

Commenting on the Company's second quarter results, Curt Glowacki, Chief Executive Officer, stated, "On a national level, there has been significant pressure on the casual dining segment due to increased gas prices, utility costs, competition and commodity pricing. Notwithstanding, our same-restaurant sales were up and our margins improved compared with the second quarter fiscal 2005. Our continued improvement is a reflection of a passionate commitment to anticipate, develop and execute strategies that deliver value for both customers and shareholders. Consistent with our growth strategy, we opened one new restaurant in Oklahoma during the first quarter that continues to exceed our sales expectations and have signed another lease for a restaurant we plan to open in Texas during the fourth quarter of fiscal 2006."

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