



## Mexican Restaurants, Inc. Announces 2007 Second Quarter Operating Results

2007-08-13

For the second quarter of fiscal year 2007 ended July 1, 2007, Mexican Restaurants, Inc. (Nasdaq:CASA) reported net income of \$129,882 or \$0.04 per diluted share, compared with net income of \$1,006,467 or \$0.27 per diluted share for the second quarter of fiscal year 2006.

For the 26-week period ended July 1, 2007, the Company reported net income of \$60,338 or \$0.02 per diluted share, compared with net income of \$1,772,414 or \$0.48 per diluted share for the 26-week period of fiscal year 2006.

The Company's revenues for the second quarter of fiscal year 2007 increased \$20,257 or 0.1% to \$20.9 million compared with \$20.8 million for the same quarter in fiscal year 2006. Restaurant sales for the second quarter of fiscal 2007 increased \$175,075 or 0.9% to \$20.7 million compared with \$20.5 million for the second quarter of fiscal year 2006. The increase in revenue reflects new restaurant additions and revenues from the Company's Mission Burritos stores of \$849,000 partially offset by a \$674,000 decline in same-restaurant sales and lost sales due to one closed restaurant for remodeling. For the second quarter ended July 1, 2007, Company-owned same-restaurant sales decreased approximately 2.1% and franchised-owned same-restaurant sales, as reported by franchisees, increased approximately 1.4%.

On a year-to-date basis, the Company's revenue decreased \$275,412 or 0.7% to \$41.4 million compared with \$41.6 million for the same 26-week period in fiscal year 2006. Restaurant sales for 2007 year-to-date decreased \$114,140 or 0.3% to \$41.0 million compared with \$41.1 million for the same 26-week period of fiscal year 2006. The decrease in revenue reflects a \$2.2 million decline in same-restaurant sales, partially offset by net new restaurant additions and revenues from the Company's Mission Burritos stores of \$2.1 million. For the 26-week period ended July 1, 2007, Company-owned same-restaurant sales decreased approximately 4.6% and franchised-owned same-restaurant sales, as reported by franchisees, decreased approximately 0.6%.

Commenting on the Company's second quarter results, Curt Glowacki, Chief Executive Officer, stated, "Although we reported a decline in same-store restaurant sales for the second quarter, we are starting to see a positive turn as some of the concepts delivered positive comps for the quarter. Also impacting sales, the Casa Ole located in Victoria, Texas, was closed for eight weeks during the second quarter of 2007 for a major remodel, resulting in lost sales of approximately \$250,000.

"We are still facing challenges in controlling our food and labor costs. During the second quarter, we raised menu prices at most of our concepts to partially offset rising commodity prices. On July 24, 2007, the federal minimum wage increased, increasing our payroll costs by approximately \$7,000 per week. We are continuing to monitor food and labor costs, and if necessary, we intend to make further menu price increases later on in the fiscal year.

"Moving into the third quarter, we have signed leases for our two new Mission Burritos sites, which we plan to open in the fourth quarter of this year. We are extremely excited to be on track with our growth plans for expanding our fast casual concept. We have also signed a lease for a new Casa Ole restaurant located in Katy, Texas, with construction scheduled to begin in the fourth quarter. As always, we will continue to offer our loyal customers a reasonably priced menu combined with superior service which results in an enjoyable dining experience."

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.

	13-Week Period Ended	13-Week Period Ended	26-Week Period Ended	26-Week Period Ended
Non-GAAP Calculation	7/01/2007	7/02/2006	7/01/2007	7/02/2006
Income from continuing operations	\$ 266,772	\$1,594,336	\$ 238,416	\$2,783,836
Impairment costs	--	78,131	--	78,131
Business Interruption Proceeds	--	(59,621)	--	(59,621)
Hurricane Rita Gains	--	(386,270)	--	(366,808)
(Gain) loss on sale of assets	84,367	(16,912)	91,682	(10,953)
Severance pay	98,515	--	98,515	--
Write-off of prior debt loan fees	21,874	--	25,000	--
Income from continuing operations before taxes, as adjusted	471,528	1,209,664	453,613	2,424,585
Income tax expense	145,796	415,278	143,432	821,692
Income from continuing operations, as adjusted	325,732	794,386	310,181	1,602,893
Loss from discontinued operations, net of				

taxes	(54,398)	(40,603)	(102,684)	(68,021)
Net Income, as adjusted	\$ 271,334	\$ 753,783	\$ 207,497	\$1,534,872
Weighted average number of shares (diluted)	3,427,983	3,666,712	3,460,690	3,654,962
Diluted income per share, as adjusted	\$ 0.08	\$ 0.21	\$ 0.06	\$ 0.42

Mexican Restaurants, Inc. and Subsidiaries  
Consolidated Statements of Income  
(Unaudited)

	13-Week Period Ended 7/01/2007	13-Week Period Ended 7/02/2006	26-Week Period Ended 7/01/2007	26-Week Period Ended 7/02/2006
Revenues:				
Restaurant sales	\$20,700,473	\$20,525,398	\$41,028,292	\$41,142,432
Franchise fees, royalties and other	169,716	264,913	331,960	433,611
Business Interruption	-	59,621	-	59,621
	20,870,189	20,849,932	41,360,252	41,635,664
Costs and expenses:				
Cost of sales	5,896,176	5,648,178	11,643,175	11,305,863
Labor	6,631,254	6,632,939	13,480,073	13,173,066
Restaurant operating expenses	5,080,626	4,625,352	10,178,792	9,278,369
General and administrative	1,926,749	1,837,579	3,835,630	3,699,669
Depreciation and amortization	856,462	757,569	1,678,235	1,479,952
Pre-opening costs	19,993	14,510	19,993	64,248
Impairment costs	-	78,131	-	78,131
Hurricane Rita gain	-	(386,270)	-	(366,808)
(Gain) loss on sale of assets	84,367	(16,912)	91,682	(10,953)
	20,495,627	19,191,076	40,927,580	38,701,537
Operating income	374,562	1,658,856	432,672	2,934,127
Other income (expense):				
Interest income	1,861	630	3,824	1,260
Interest expense	(123,951)	(88,793)	(223,583)	(198,992)
Other, net	14,300	23,643	25,503	47,441
	(107,790)	(64,520)	(194,256)	(150,291)
Income from continuing operations before income taxes	266,772	1,594,336	238,416	2,783,836
Income tax expense	82,492	547,266	75,394	943,401
Income from continuing operations	184,280	1,047,070	163,022	1,840,435
Discontinued Operations:				
Income (loss) from discontinued operations	24,543	(62,108)	3,090	(105,895)
Restaurant closure costs	(110,529)	-	(169,549)	-
Gain (loss) on sale of assets	-	(2,737)	3,412	(2,737)
Loss from discontinued operations				

before income taxes	(85,986)	(64,845)	(163,047)	(108,632)
Income tax benefit	31,588	24,242	60,363	40,611
Loss from discontinued operations	(54,398)	(40,603)	(102,684)	(68,021)
Net income	129,882	1,006,467	60,338	1,772,414
Basic income (loss) per share				
Income from continuing operations	\$ 0.06	\$ 0.31	\$ 0.05	\$ 0.55
Loss from discontinued operations	(0.02)	(0.01)	(0.03)	(0.02)
Net income	\$ 0.04	\$ 0.30	\$ 0.02	\$ 0.53
Diluted income (loss) per share				
Income from continuing operations	\$ 0.06	\$ 0.28	\$ 0.05	\$ 0.50
Loss from discontinued operations	(0.02)	(0.01)	(0.03)	(0.02)
Net income	\$ 0.04	\$ 0.27	\$ 0.02	\$ 0.48
Weighted average number of shares (basic)	3,416,488	3,389,526	3,438,405	3,373,252
Weighted average number of shares (diluted)	3,427,983	3,666,712	3,460,690	3,654,962

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