

MEXICAN RESTAURANTS INC

FORM 8-K

(Current report filing)

Filed 03/23/07 for the Period Ending 03/21/07

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

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): March 21, 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))

Item 2.02. Results of Operations and Financial Condition.

On March 21, 2007, Mexican Restaurants, Inc. issued a press release announcing its financial results for its fiscal year and fourth quarter ended December 31, 2006. 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 registration statement or other document filed 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.

(c) 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 March 21, 2007.

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: March 23, 2007

By: /s/ Andrew J. Dennard

Name: Andrew J. Dennard

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

INDEX TO EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| 99.1 | Mexican Restaurants, Inc. press release dated March 21, 2007 |



FOR IMMEDIATE RELEASE

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

**Mexican Restaurants, Inc.
 Announces Fiscal Year-End Results
 (NASDAQ: CASA)**

Houston, Texas (March 21, 2007) For the Company's 2006 fiscal year ended December 31, 2006, the Company reported net income of \$1,138,334 or \$0.32 per diluted share compared with net income of \$2,316,997 or \$0.63 per diluted share for fiscal year 2005. For the fourth quarter ended December 31, 2006, the Company reported net loss of \$1,009,469 or \$0.30 per diluted share compared with net income of \$1,108,481 or \$0.30 per diluted share for the same quarter in fiscal year 2005.

The Company's revenues for the fiscal year ended December 31, 2006 were up \$4.1 million or 5.3% to \$82.3 million compared with fiscal year 2005. Restaurant sales for fiscal year 2006 increased \$4.5 million or 5.8% to \$81.4 million compared with fiscal year 2005. The increase in restaurant sales reflects the opening of two new restaurants, the full year impact of one restaurant opened in fiscal year 2005, and the acquisition of Mission Burritos (two restaurants), offset in part by a 0.9% decline in same-restaurant sales.

For the fourth quarter 2006 same-store sales were down 8%. This compares to the 12% same store sales growth achieved in fourth quarter 2005. The fourth quarter of 2005 was unusual, reflecting the temporary population shifts after Hurricanes Rita and Katrina and the relative speed with which the Company was able to re-open closed stores after Hurricane Rita.

For fiscal year 2006, total system same-restaurant sales decreased 1.2%, Company-owned same-restaurant sales decreased 0.9% and franchisee-owned same-restaurant sales decreased 1.9% from fiscal year 2005.

Commenting on the Company's year-end results for fiscal year 2006, Lou Neeb, Chief Executive Officer, stated, "Despite solid fundamentals and continued improvements in service and value propositions, the fourth quarter was one with many challenges. Sales momentum slowed due to shrinking consumer discretionary spending, while profit margins were impacted by rising commodity and utility costs, higher insurance premiums, and selected higher security costs. Notwithstanding these factors, we are confident about our future with the results of new restaurant openings and the acquisition of Mission Burritos, a new fast casual concept."

Mr. Neeb added, "In the fourth quarter of fiscal year 2006, we also incurred \$596,764 in vested option compensation expense as part of a Separation Agreement between Curt Glowacki, the Company's former Chief Executive Officer, and the Company. From our operating point of view, and as shown in the following table, income on an adjusted basis, excluding non recurring items in both fiscal years, was \$0.48 per share compared to \$0.51 per share."

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 fiscal years and quarters ended December 31, 2006 and January 1, 2006 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, vested option compensation, and executive search fees. The adjusted income has been included as it is deemed to provide meaningful, alternative information regarding the Company's fiscal years 2006 and 2005 and respective fourth quarter performance for these fiscal years. 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.

| Non-GAAP Calculation | Fiscal Year Ended 12/31/06 (52 Weeks) | Fiscal Year Ended 01/01/06 (52 Weeks) | Fourth Quarter Ended 12/31/06 (13 Weeks) | Fourth Quarter Ended 01/01/06 (13 Weeks) |
|---|--|--|---|---|
| Income (loss) from continuing operations | \$ 2,743,775 | \$ 4,471,020 | \$ (665,406) | \$ 2,523,420 |
| Impairment costs | 543,777 | -- | 448,188 | -- |
| Business Interruption Proceeds | (59,621) | (534,163) | -- | (534,163) |
| Hurricane Rita Gains | (366,808) | (471,622) | -- | (745,030) |
| (Gain) loss on sale of assets | 32,282 | 367,711 | 33,388 | 75,450 |
| Purchase of vested options | 596,764 | -- | 596,764 | -- |
| Executive search fee | 31,250 | -- | 31,250 | -- |
| Income from continuing operations before taxes, as adjusted | <u>3,521,419</u> | <u>3,832,946</u> | <u>444,184</u> | <u>1,319,677</u> |
| Income tax expense (benefit) | 1,089,879 | 1,264,106 | 189,444 | 441,300 |
| Income from continuing operations, as adjusted | <u>2,431,540</u> | <u>2,568,840</u> | <u>254,740</u> | <u>878,377</u> |
| Loss from discontinued operations, net of taxes | <u>(756,339)</u> | <u>(679,417)</u> | <u>(627,848)</u> | <u>(571,131)</u> |
| Net Income (loss), as adjusted | <u>\$ 1,675,201</u> | <u>\$ 1,889,423</u> | <u>\$ (373,108)</u> | <u>\$ 307,246</u> |
| Weighted average number of shares (diluted) | <u>3,521,587</u> | <u>3,700,876</u> | <u>3,413,066</u> | <u>3,656,484</u> |
| Diluted income (loss) per share, as adjusted | <u>\$ 0.48</u> | <u>\$ 0.51</u> | <u>\$ (0.11)</u> | <u>\$ 0.08</u> |

Mexican Restaurants, Inc. operates and franchises 79 Mexican restaurants. The current system includes 60 Company-operated restaurants, 18 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 and discretionary spending habits; the risk of food-borne illness; 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 recently filed 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 Operations
(unaudited)

| | 13-Week Period Ended <u>12/31/2006</u> | 13-Week Period Ended <u>1/1/2006</u> | 52-Week Period Ended <u>12/31/2006</u> | 52-Week Period Ended <u>1/1/2006</u> |
|--|---|---|---|---|
| Revenues: | | | | |
| Restaurant sales | \$ 19,755,282 | \$ 19,496,901 | \$ 81,379,597 | \$ 76,901,353 |
| Franchise fees, royalties and other | 196,001 | 161,846 | 825,115 | 694,302 |
| Business interruption | - | 534,163 | 59,621 | 534,163 |
| | <u>19,951,283</u> | <u>20,192,910</u> | <u>82,264,333</u> | <u>78,129,818</u> |
| Costs and expenses: | | | | |
| Cost of sales | 5,472,349 | 5,139,118 | 22,429,076 | 20,914,871 |
| Labor | 6,426,934 | 6,154,861 | 26,358,576 | 25,048,534 |
| Restaurant operating expenses | 4,979,831 | 4,481,052 | 19,263,309 | 17,692,164 |
| General and administrative | 2,313,152 | 1,764,278 | 7,716,786 | 6,941,683 |
| Depreciation and amortization | 828,862 | 703,733 | 3,131,399 | 2,683,651 |
| Pre-opening costs | 44,599 | 22,066 | 108,847 | 77,942 |
| Impairment costs | 448,188 | - | 543,777 | - |
| Hurricane Rita gain | - | (745,030) | (366,808) | (471,622) |
| Loss on sale of assets | 33,388 | 75,450 | 32,282 | 367,711 |
| | <u>20,547,303</u> | <u>17,595,528</u> | <u>79,217,244</u> | <u>73,254,934</u> |
| Operating income | <u>(596,020)</u> | <u>2,597,382</u> | <u>3,047,089</u> | <u>4,874,884</u> |
| Other income (expense): | | | | |
| Interest income | 631 | 630 | 6,239 | 3,451 |
| Interest expense | (82,317) | (98,010) | (390,539) | (521,161) |
| Other, net | 12,300 | 23,418 | 80,986 | 113,846 |
| | <u>(69,386)</u> | <u>(73,962)</u> | <u>(303,314)</u> | <u>(403,864)</u> |
| Income (loss) from continuing operations before income taxes | (665,406) | 2,523,420 | 2,743,775 | 4,471,020 |
| Income tax expense (benefit) | (283,785) | 843,808 | 849,102 | 1,474,606 |
| Income (loss) from continuing operations | <u>(381,621)</u> | <u>1,679,612</u> | <u>1,894,673</u> | <u>2,996,414</u> |
| Discontinued Operations: | | | | |
| Loss from discontinued operations | (159,924) | (126,026) | (364,352) | (303,448) |
| Restaurant closure costs | (832,179) | (790,708) | (832,179) | (790,708) |
| Loss on sale of assets | (9,830) | (1,290) | (10,449) | (2,420) |
| Loss from discontinued operations before income taxes | <u>(1,001,933)</u> | <u>(918,024)</u> | <u>(1,206,980)</u> | <u>(1,096,576)</u> |
| Income tax benefit | 374,085 | 346,893 | 450,641 | 417,159 |
| Loss from discontinued operations | <u>(627,848)</u> | <u>(571,131)</u> | <u>(756,339)</u> | <u>(679,417)</u> |
| Net income (loss) | <u>\$ (1,009,469)</u> | <u>\$ 1,108,481</u> | <u>\$ 1,138,334</u> | <u>\$ 2,316,997</u> |
| Basic income (loss) per share | | | | |

| | | | | | | | | |
|---|----|------------------|----|------------------|----|------------------|----|------------------|
| Income (loss) from continuing operations | \$ | (0.12) | \$ | 0.50 | \$ | 0.55 | \$ | 0.88 |
| Loss from discontinued operations | | <u>(0.18)</u> | | <u>(0.17)</u> | | <u>(0.22)</u> | | <u>(0.20)</u> |
| Net income (loss) | \$ | <u>(0.30)</u> | \$ | <u>0.33</u> | \$ | <u>0.33</u> | \$ | <u>0.68</u> |
| Diluted income (loss) per share | | | | | | | | |
| Income (loss) from continuing operations | \$ | (0.12) | \$ | 0.46 | \$ | 0.53 | \$ | 0.81 |
| Loss from discontinued operations | | <u>(0.18)</u> | | <u>(0.16)</u> | | <u>(0.21)</u> | | <u>(0.18)</u> |
| Net income (loss) | \$ | <u>(0.30)</u> | \$ | <u>0.30</u> | \$ | <u>0.32</u> | \$ | <u>0.63</u> |
| Weighted average number of shares (basic) | | <u>3,413,066</u> | | <u>3,403,719</u> | | <u>3,402,207</u> | | <u>3,415,806</u> |
| Weighted average number of shares (diluted) | | <u>3,413,066</u> | | <u>3,656,484</u> | | <u>3,521,587</u> | | <u>3,700,876</u> |

