MEXICAN RESTAURANTS INC
Form 10-K
April 17, 2001

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UNITED STATES
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ___________ to ______________

COMMISSION FILE NUMBER: 0-28234

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

TEXAS	76-0493269
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1135 EDGEBROOK, HOUSTON, TEXAS	77034-1899
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: 713/943-7574

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $.01 PAR VALUE
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of Common Stock held by non-affiliates of the registrant, based on the sale trade price of the Common Stock as reported by the Nasdaq National Market on April 11, 2001 was $3,656,873. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant. Number of shares outstanding of each of the issuer's classes of common stock, as of April 11, 2001: 3,522,905 shares of common stock, par value $.01.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive proxy statement in connection with the Annual Meeting of Shareholders to be held May 22, 2001, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

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PART 1

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-K under "Item 1. Business", "Item 3. Legal Proceedings", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other facts which may cause the actual results, performance or achievements of Mexican Restaurants, Inc. (the "Company"), its area developers, franchisees and restaurants 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: general economic and business conditions; competition; success of operating initiatives; development and operating costs; area developers' adherence to development schedules; advertising and promotional efforts; brand awareness; adverse publicity; acceptance of new product offerings; availability, locations and terms of sites for store development; changes in business strategy or development plans; quality of management; availability, terms and development of capital; business abilities and judgment of personnel; availability of qualified personnel; food, labor and employee benefit costs; changes in, or the failure to comply with government regulations; regional weather conditions; construction schedules; and other factors referenced in the Form 10-K. The use in this Form 10-K of such words 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. The success of the Company is dependent on the efforts of the Company, its employees, its area developers, and franchisees and the manner in which they operate and develop stores.

ITEM 1. BUSINESS

GENERAL

Mexican Restaurants, Inc. (formerly Casa Ole Restaurants, Inc., the

"Company") was incorporated under the laws of the State of Texas in February 1996, and had its initial public offering in April 1996. The Company operates as a holding company and conducts substantially all of its operations through its subsidiaries. All references to the Company include the Company and its subsidiaries, unless otherwise stated.

The Company operates and franchises Mexican-theme restaurants featuring various elements associated with the casual dining experience, under the names Casa Ole, Monterey's Tex-Mex Cafe, Monterey's Little Mexico, Tortuga Coastal Cantina and La Senorita. The Casa Ole, Monterey, Tortuga and La Senorita concepts have been in business for 29, 46, 7 and 22 years, respectively. Today the Company operates 53 restaurants and franchises 35 restaurants in various communities across Texas, Louisiana, Oklahoma, Idaho and Michigan. The Casa Ole', Monterey and La Senorita restaurants are designed to appeal to a broad range of customers, and are located primarily in small and medium-sized communities and middle-income areas of larger markets. The Tortuga Coastal Cantina restaurants also appeal to a broad range of customers and are primarily located in Houston suburban markets. The restaurants offer fresh, quality food, affordable prices, friendly service and comfortable surroundings. Menus feature a variety of traditional Mexican and Tex-Mex selections; complemented by the Company's own original Mexican-based recipes designed to have broad appeal. The Company believes that the established success of the Company in existing markets, its focus on middle-income customers, and the skills of its management team provide significant opportunities to realize the value inherent in the Mexican restaurant market, increase revenues in existing markets, and through opportunistic acquisitions, penetrate new markets.

STRATEGY AND CONCEPT

The Company's objective is to be perceived as a value leader in the Mexican segment of the full-service casual dining marketplace. To accomplish this objective, the Company has developed strategies designed to achieve and maintain high levels of customer loyalty, frequent patronage and profitability. The key strategic elements are:

- Offering consistent, high-quality, original recipe Mexican menu items that reflect both national and local taste preferences;

- Pricing menu offerings at levels below many family and casual-dining restaurant concepts;

- Selecting, training and motivating its employees to enhance customer dining experiences and the friendly casual atmosphere of its restaurants;

- Providing customers with the friendly, attentive service typically associated with more expensive casual-dining experiences; and

- Reinforcing the perceived value of the dining experience with a comfortable and inviting Mexican decor.

MENU. The Company's restaurants offer high-quality products with a distinctive, yet mild taste profile with mainstream appeal. Fresh ingredients are a critical recipe component, and the majority of menu items are prepared daily in the kitchen of each restaurant from original recipes.

The menus feature a wide variety of entrees including enchiladas, combination platters, burritos, fajitas, coastal seafood and other house specialties. The menu also includes soup, salads, appetizers and desserts. From

time to time the

Company also introduces new dishes designed to keep the menus fresh. Alcoholic beverages are served as a complement to meals and represent a range of less than 5% of sales at its more family oriented locations, and up to 20% in its more casual dining locations. At Company-owned restaurants the dinner menu entrees presently range in price from $4.49 to $14.95, with most items priced between $5.95 and $8.95. Lunch prices at most Company-owned restaurants presently range from $4.45 to $8.95.

ATMOSPHERE AND LAYOUT. The Company emphasizes an attractive interior and exterior design for each of its restaurants. The typical restaurant has an inviting and interesting Mexican exterior. The interior decor is comfortable Mexican in appearance to reinforce the perceived value of the dining experience. Stucco, tile floors, carpets, plants and a variety of paint colors are integral features of each restaurant's decor. These decor features are incorporated in a floor plan designed to provide a comfortable atmosphere. The Company's restaurant designs are sufficiently flexible to accommodate a variety of available sites and development opportunities, such as malls, end-caps of strip shopping centers and free standing buildings, including conversions. The physical facility is also designed to serve a high volume of customers in a relatively limited period of time. The Company's restaurants typically range in size from approximately 4,000 to 5,600 square feet, with an average of approximately 4,500 square feet and a seating capacity of approximately 180.

GROWTH STRATEGY

The Company believes that the unit economics of the various restaurant concepts of the Company, as well as their value orientation and focus on middle income customers, provide significant opportunities for expansion. The Company's strategy to capitalize on these expansion opportunities is comprised of three key elements:

IMPROVE SAME RESTAURANT SALES AND PROFITS. The Company's first growth objective is to improve the sales and controllable income of existing restaurants. This is accomplished through an emphasis on restaurant operations, coupled with marketing, purchasing and other organizational efficiencies (see "Restaurant Operations" below).

INCREASED PENETRATION OF EXISTING MARKETS. The Company's second growth objective is to increase the number of restaurants in existing Designated Market Areas ("DMAs") and expansion into contiguous new markets. The DMA concept is a mapping tool developed by the A.C. Nielsen Co. that measures the size of a particular market by reference to communities included within a common television market. The Company's objective in increasing the density of Company-owned restaurants within existing markets is to improve operating efficiencies in such markets and to realize improved overhead absorption. In addition, the Company believes that increasing the density of restaurants in both Company-owned and franchised markets will assist it in achieving effective media penetration while maintaining or reducing advertising costs as a percentage of revenues in the relevant markets. The Company believes that careful and prudent site selection within existing markets will avoid cannibalization of the sales base of existing restaurants.

In implementing its new unit expansion strategy, the Company may use a combination of franchised and Company-owned restaurants. The number of such

restaurants developed in any period will vary. The Company believes that a mix of franchised and Company-owned restaurants would enable it to realize accelerated expansion opportunities, while maintaining majority or sole ownership of a significant number of restaurants. Generally the Company does not anticipate opening franchised and Company-owned restaurants within the same market. In seeking franchisees, the Company will continue to primarily target experienced multi-unit restaurant operators with knowledge of a particular geographic market and financial resources sufficient to execute the Company's development strategy.

In adding to its Company-owned restaurants, the Company anticipates it will continue to selectively acquire existing franchised restaurants. During fiscal 1999, the Company acquired a franchised restaurant in San Marcos, Texas and converted that restaurant into a Tortuga Coastal Cantina.

SELECTIVE ACQUISITIONS. The Company's third growth objective is to seek selective acquisitions that meet its growth goals of increasing penetration in existing markets and/or entering new markets. Following this strategic approach to growth the Company purchased 100% of the outstanding stock of Monterey's Acquisition Corp. ("MAC") on July 2, 1997. The Company purchased the shares of common stock of MAC for $4.0 million, paid off outstanding debt and accrued interest totaling $7.1 million and funded various other agreed-upon items approximating $500,000. At the time of the acquisition, MAC owned and operated 26 restaurants in Texas and Oklahoma.

On April 30, 1999, the Company purchased 100% of the outstanding stock of La Senorita Restaurants, a Mexican restaurant chain operated in the State of Michigan. The Company purchased the shares of common stock of La Senorita for $4.0 million. The transaction was funded with the Company's revolving line of credit with Bank of America. La Senorita operates five company-owned restaurants, and has four franchise restaurants. One of the franchise restaurants is owned by a general partnership in which the parent company has a 17.5% limited interest.

The Company does not currently anticipate building any new restaurants or making any acquisitions during fiscal year 2001.

SITE SELECTION

Execution of the expansion strategy requires locating, evaluating and securing adequate sites. Senior management devotes significant time and resources to analyzing each prospective site. Senior management has also created and utilizes a site selection committee, which reviews and approves each site to be developed. In addition, the Company conducts

customer surveys to precisely define the demographic profile of the customer base of each of the Company's restaurant concepts. The Company's site selection criteria focus on:

1) matching the customer profile of the respective restaurant concept to the profile of the population of the target local market;

2) easy site accessibility, adequate parking, and prominent visibility of each site under consideration;

3) the site's strategic location within the marketplace;

4) the site's proximity to the major concentration of shopping centers within the market;

5) the site's proximity to a large employment base to support the lunch segment; and

6) the impact of competition from other restaurants in the market.

The Company believes that a sufficient number of suitable sites are available for Company and franchise development in existing markets. Based on its current planning and market information, the Company does not plan to open additional restaurants in fiscal year 2001, but believes that its franchisees will open one additional restaurant. The anticipated total investment for a 4,200 to 5,600 square foot restaurant, including land, building, equipment, signage, site work, furniture, fixtures and decor ranges between $1.4 and $2.1 million (including capitalized lease value). Additionally, training and other pre-opening costs are anticipated to approximate $50,000 per location. The cost of developing and operating a Company restaurant can vary based upon fluctuations in land acquisition and site improvement costs, construction costs in various markets, the size of the particular restaurant and other factors. Although the Company anticipates that development costs associated with near-term restaurants will range between $1.4 and $2.1 million, there can be no assurance of this. Where possible, the Company uses build to suit, lease conversion or sale and leaseback transactions to limit its cash investment to approximately $500,000 per location.

The Company's ability to open the number of restaurants contemplated by its expansion plans is subject to certain risks. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Risk Factors."

RESTAURANT OPERATIONS

MANAGEMENT AND EMPLOYEES. The management staff of each restaurant is responsible for managing the restaurant's operations. Each Company-owned restaurant operates with a general manager, one or more assistant managers and a kitchen manager or a chef. Including managers, restaurants have an average of 50 full-time and part-time employees. The Company historically has spent considerable effort developing its employees, allowing it to promote from within. As an additional incentive to its restaurant management personnel, the Company has a bonus plan in which restaurant managers can receive monthly bonuses based on a percentage of their restaurants' controllable profits.

The Company's regional supervisors, who report directly to the Company's Directors of Operation, offer support to the store managers. Each supervisor is eligible for a monthly bonus based on a percentage of controllable profits of the stores under their control.

As of December 31, 2000, the Company employed approximately 2,350 people, of whom 2,317 were restaurant personnel at the Company-owned restaurants and 33 were corporate personnel. The Company considers its employee relations to be good. Most employees, other than restaurant management and corporate personnel, are paid on an hourly basis. The Company's employees are not covered by a collective bargaining agreement.

TRAINING AND QUALITY CONTROL. The Company requires its hourly employees to participate in a formal training program carried out at the individual restaurants, with the on-the-job training program varying from three days to two

weeks based upon the applicable position. Managers of both Company-owned and franchised restaurants are trained at one of the Company's specified training stores by that store's general manager and then certified upon completion of a four to six week program that encompasses all aspects of restaurant operations as well as personnel management and policy and procedures, with special emphasis on quality control and customer relations. To evaluate ongoing employee service and provide rewards to employees, the Company employs a "mystery shopper" program which consists of two anonymous visits per month per restaurant. The Company's franchise agreement requires each franchised restaurant to employ a general manager who has completed the Company's training program at one of the Company's specified training stores. Compliance with the Company's operational standards is monitored for both Company-owned and franchised restaurants by random, on-site visits by corporate management, regular inspections by regional supervisors, the ongoing direction of a corporate quality control manager and the mystery shopper program.

MARKETING AND ADVERTISING. The Company believes that when media penetration is achieved in a particular market, investments in radio and television advertising can generate significant increases in revenues in a cost-effective manner. During fiscal 2000, the Company spent approximately 3.7% of restaurant revenues on various forms of advertising. Besides radio and television, the Company makes use of in-store promotions, involvement in community activities, and customer word-of-mouth to maintain their performance. Achieving effective media penetration in each market which it enters is a key component of the Company's expansion strategy.

PURCHASING. The Company strives to obtain consistent quality products at competitive prices from reliable sources. The Company works with its distributors and other purveyors to ensure the integrity, quality, price and availability of the various raw ingredients. The Company researches and tests various products in an effort to maintain quality and to be responsive to changing customer tastes. The Company operates a centralized purchasing system that is utilized by all of the Company-owned restaurants and is available to the Company's franchisees. Under the Company's franchise agreement, if a franchisee wishes to purchase from a supplier other than a currently approved supplier, it must first submit the products and supplier to the Company for approval. Regardless of the purchase source, all purchases must comply with the Company's product specifications. The Company's ability to maintain consistent product quality throughout its operations depends upon acquiring specified food products and supplies from reliable sources. Management believes that all essential food and beverage products are available from other qualified sources at competitive prices.

FRANCHISING

The Company currently has 17 franchisees operating a total of 35 restaurants. No new franchise restaurants were opened and none were closed during fiscal year 2000. As of April 11, 2001, two franchise restaurant locations are under consideration (one Tortuga Coastal Cantina and one Casa Ole). Franchising allows the Company to expand the number of stores and penetrate markets more quickly and with less capital than developing Company-owned stores. Franchisees are selected on the basis of various factors, including business background, experience and financial resources. In seeking new franchisees, the Company targets experienced multi-unit restaurant operators with knowledge of a particular geographic market and financial resources sufficient to execute the Company's development schedule. Under the current

franchise agreement, franchisees are required to operate their stores in compliance with the Company's policies, standards and specifications, including matters such as menu items, ingredients, materials, supplies, services, fixtures, furnishings, decor and signs. In addition, franchisees are required to purchase, directly from the Company or its authorized agent, spice packages for use in the preparation of certain menu items, and must purchase certain other items from approved suppliers unless written consent is received from the Company.

FRANCHISE AGREEMENTS. The Company enters into a franchise agreement with each franchisee which grants the franchisee the right to develop a single store within a specific territory at a site approved by the Company. The franchisee then has limited exclusive rights within the territory. Under the Company's current standard franchise agreement, the franchisee is required to pay a franchise fee of $25,000 per restaurant. The current standard franchise agreement provides for an initial term of 15 years (with a limited renewal option) and payment of a royalty of 3% to 5% of gross sales. The termination dates of the Company's franchise agreements with its existing franchisees currently range from 2001 to 2015. During fiscal year 2000, the Company modified its franchise agreement to accommodate the Tortuga Coastal Cantina concept.

Franchise agreements are not assignable without the prior written consent of the Company. Also, the Company retains rights of first refusal with respect to any proposed sales by the franchisee. Franchisees are not permitted to compete with the Company during the term of the franchise agreement and for a limited time, and in a limited area, after the term of the franchise agreement. The enforceability and permitted scope of such noncompetition provisions varies from state to state. The Company has the right to terminate any franchise agreement for certain specific reasons, including a franchisee's failure to make payments when due or failure to adhere to the Company's policies and standards. Many state franchise laws, however, limit the ability of a franchisor to terminate or refuse to renew a franchise. See "Item 1. Business--Government Regulation."

Prior forms of the Company's franchise agreements may contain terms that vary from those described above, including with respect to the payment or nonpayment of advertising fees and royalties, the term of the agreement, and assignability, noncompetition and termination provisions.

FRANCHISEE TRAINING AND SUPPORT. Under the current franchise agreement, each franchisee (or if the franchisee is a corporation, a manager designated by the franchisee) is required to personally participate in the operation of the franchise. Before opening the franchisee's business to the public, the Company provides training at its approved training facility for each franchisee's general manager, assistant manager and chef. The Company recommends that the franchisee, if the franchisee is other than the general manager, or if a corporation, its chief operating officer, attend such training. The Company also provides a training team to assist the franchisee in opening its restaurant. The team, supervised by the Director of Training, will assist and advise the franchisee and/or its manager in all phases of the opening operation for a seven to fourteen day period. The formal training program required of hourly employees and management, along with continued oversight by the Company's quality control manager, promotes consistency of operations.

AREA DEVELOPERS. The area development agreement is an extension of the standard franchise agreement. The area development agreement provides area developers with the right to execute more than one franchise agreement in accordance with a fixed development schedule. Restaurants established under these agreements must be located in a specific territory in which the area developer will have limited exclusive rights. Area developers pay an initial development fee generally equal to the total initial franchise fee for the first franchise agreement to be executed pursuant to the development schedule plus 10%

of the initial franchise fee for each additional franchise agreement to be executed pursuant to the development schedule. Generally the initial development fee is not refundable, but will be applied in the proportions described above to the initial franchise fee payable for each franchise agreement executed pursuant to the development schedule. New area developers will pay monthly royalties for all restaurants established under such franchise agreements on a declining scale generally ranging from 5% of gross sales for the initial restaurant to 3% of gross sales for the fourth restaurant and thereafter as additional restaurants are developed. Area development agreements are not assignable without the prior written consent of

the Company. The Company will retain rights of first refusal with respect to proposed sales of restaurants by the area developers. Area developers are not permitted to compete with the Company. If an area developer fails to meet its development schedule obligations, the Company can, among other things, terminate the area development agreement or modify the territory in the agreement. The Company is not currently seeking new area developers. The Company currently has one area developer operating a total of eleven restaurants.

COMPETITION

The restaurant industry is intensely competitive. Competition is based upon a number of factors, including concept, price, location, quality and service. The Company competes against a broad range of other family dining concepts, including those focusing on various other types of ethnic food, as well as local restaurants in its various markets. The Company also competes against other quick service and casual dining concepts within the Mexican and Tex-Mex food segment. Many of the Company's competitors are well established and have substantially greater financial and other resources than the Company. Some of the Company's competitors may be better established in markets where the Company's restaurants are or may be located. The Company believes that it competes with franchisors of other restaurants and various other concepts for franchisees.

The restaurant business is affected by many factors, including changes in consumer tastes and eating habits, national, regional or local economic and real estate conditions, demographic trends, weather, traffic patterns, and the type, number and location of competing restaurants. In addition, factors such as inflation, increased food, labor and benefit costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company's restaurants in particular.

GOVERNMENT REGULATION

Each Company restaurant is subject to regulation by federal agencies and to licensing and regulation by state and local health, sanitation, safety, fire and other departments relating to the development and operation of restaurants. These include regulations pertaining to the environmental, building and zoning requirements in the preparation and sale of food. The Company is also subject to laws governing the service of alcohol and its relationship with employees, including minimum wage requirements, overtime, working conditions and immigration requirements. Difficulties or failures in obtaining the required construction and operating licenses, permits or approvals could delay or prevent the opening of a specific new restaurant. The Company believes that it is operating in substantial compliance with applicable laws and regulations that govern its operations.

Alcoholic beverage control regulations require each of the Company's restaurants to apply to a state authority and, in certain locations, county or municipal authorities, for a license or permit to sell alcoholic beverages on the premises and to provide service for extended hours. Typically licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the Company's restaurants, including minimum age of patrons drinking alcoholic beverages and employees serving alcoholic beverages, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. The Company is also subject to "dramshop" statutes which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance. Additionally, within thirty days of employment by the Company, each Texas employee of the Company who serves alcoholic beverages is required to attend an alcoholic seller training program that has been approved by the Texas Alcoholic Beverage Commission and endorsed by the Texas Restaurant Association and which endeavors to educate the server to detect and prevent overservice of the Company's customers.

In connection with the sale of franchises, the Company is subject to the United States Federal Trade Commission rules and regulations and state laws that regulate the offer and sale of franchises and business opportunities. The Company is also subject to laws that regulate certain aspects of such relationships. Although certain potential compliance issues were historically identified, the Company has had no claims with respect to its programs and, based on the nature of the potential compliance issues identified, does not believe that compliance issues associated with its historical franchising programs will have a material adverse effect on its results of operations or financial condition. The Company believes that it is operating in substantial compliance with applicable laws and regulations that govern franchising programs.

The Company is subject to various local, state and federal laws regulating the discharge of pollutants into the environment. The Company believes that it conducts its operations in substantial compliance with applicable environmental laws and regulations. The Company conducts environmental audits of each proposed restaurant site in order to determine whether there is any evidence of contamination prior to purchasing or entering into a lease with respect to such site. To date the Company's operations have not been materially adversely affected by the cost of compliance with applicable environmental laws.

TRADEMARKS, SERVICE MARKS AND TRADE DRESS

The Company believes its trademark, service marks and trade dress have significant value and are important to its marketing efforts. It has registered the trademarks for "Casa Ole", "Casa Ole Mexican Restaurant", "Monterey's Tex-Mex Cafe", "Monterey's Little Mexico", "Tortuga Cantina" and "La Senorita" with the U.S. Patent Office.

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ITEM 2. PROPERTIES

The Company's executive offices are located in approximately 7,200

square feet of office space in Houston, Texas. The offices are currently leased by the Company from CO Properties No. 3, a Texas partnership owned by Larry N. Forehand and Michael D. Domec, under a gross lease (where the landlord pays utilities and property taxes) expiring in December 2004, with rental payments of $7,868 per month. See "Notes to Consolidated Financial Statements--Related Party Transactions." The Company believes that its properties are suitable and adequate for its operations.

The Company owns the land and buildings on three restaurant locations and the building and improvements on two restaurant locations situated on ground leases with the balance of locations on leased sites. One of the owned restaurants is closed and has a sale contract pending. Three of the owned restaurants were closed in previous years and have been leased to either franchisees or to third parties. The Company also owns a pad site in Phoenix, Arizona that is for sale. Real estate leased for Company-owned restaurants is typically leased under triple net leases that require the Company to pay real estate taxes and utilities, to maintain insurance with respect to the premises and in certain cases to pay contingent rent based on sales in excess of specified amounts. Generally the non-mall locations for the Company-owned restaurants have initial terms of 10 to 20 years with renewal options.

RESTAURANT LOCATIONS

At December 31, 2000, the Company's system of Company-operated and franchised restaurants included 88 restaurants. As of such date, the Company operated and franchised Casa Ole restaurants in the States of Texas and Louisiana. As of such date, the Company operated Monterey's Tex-Mex Cafe and Monterey's Little Mexico restaurants in the States of Texas, Oklahoma and Idaho, and Tortuga Coastal Cantina restaurants in the State of Texas. The Company also operated and franchised La Senorita restaurants in the State of Michigan. The Company's portfolio of restaurants is summarized below:

CASA OLE		
Company-operated	16	Leased
Franchised	31	

TOTAL	47	
	===	
MONTEREY'S TEX-MEX CAFE		
Company-operated	5	Leased
TOTAL	5	
	===	
MONTEREY'S LITTLE MEXICO		
Company-operated	1	Owned
	16	Leased
TOTAL	17	
	===	
TORTUGA COASTAL CANTINA		
Company-operated	10	Leased
TOTAL	10	
	===	

LA SENORITA		
Company-operated	5	Leased
Franchised	4	
TOTAL	9	
GRAND TOTAL	88	

ITEM 3. LEGAL PROCEEDINGS

Special Note: Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Reform Act. See "Special Note Regarding Forward-Looking Statements" for additional factors relating to such statements.

From time to time the Company is party to certain legal proceedings arising in the ordinary course of business. Although the amount of any liability that could arise with respect to these proceedings cannot be predicted accurately, in the opinion of the Company, any liability that might result from existing claims will not have a material adverse effect on the Company or its business. Nevertheless, a future lawsuit or claim could result in a material adverse effect on the Company or its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the shareholders of the Company during the fourth quarter of the fiscal year ended December 31, 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "CASA." The following table sets forth the range of quarterly high and low closing sale prices of the Company's Common Stock on the Nasdaq National Market during each of the Company's fiscal quarters since December 29, 1997.

	HIGH	LOW
FISCAL YEAR 1998:		
First Quarter (ended March 29, 1998)	4 7/8	3 3/4
Second Quarter (ended June 28, 1998)	5 7/8	4 3/4
Third Quarter (ended September 27, 1998)	5 3/8	4
Fourth Quarter (ended January 3, 1998)	5 1/16	4

FISCAL YEAR 1999:		
First Quarter (through April 4, 1999)	4 1/2	3 7/16
Second Quarter (ended July 4, 1999)	4 9/16	3 1/4
Third Quarter (ended October 3, 1999)	4 15/16	3 3/4
Fourth Quarter (ended January 2, 2000)	4 7/16	3 1/4
FISCAL YEAR 2000:		
First Quarter (ended April 2, 2000)	3 13/16	3 3/16
Second Quarter (ended July 2, 2000)	4	2 13/16
Third Quarter (ended October 1, 2000)	3 7/8	2 3/8
Fourth Quarter (ended December 31, 2000)	2 7/8	1 3/4
FISCAL YEAR 2001:		
First Quarter (ended April 1, 2001)	3 3/16	2 1/4

As of April 11, 2001, the Company estimates that there were approximately 800 beneficial owners of the Company's Common Stock, represented by approximately 66 holders of record.

Since its 1996 initial public offering, the Company has not paid cash dividends on its Common Stock. The Company intends to retain earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends on the Common Stock for the foreseeable future. The payment of cash dividends in the future will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, the Company's financial condition and other factors deemed relevant by the Board of Directors. In addition, the Company's current credit agreement prohibits the payment of any cash dividends.

ITEM 6. SELECTED FINANCIAL DATA

Balance sheet data as of December 27, 1996, December 28, 1997, January 3, 1999, January 2, 2000 and December 31, 2000, and income statement data for the fiscal years then ended have been derived from consolidated financial statements audited by KPMG LLP, independent certified public accountants. The selected financial data set forth below should be read in conjunction with and are qualified by reference to the Consolidated Financial Statements and the Notes thereto included in Item 8. hereof and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7. hereof.

			FISCAL YEARS
	1996	1997	1998(1)
	(Dollars in thousands, except per s		
INCOME STATEMENT DATA:			
Revenues:			

Restaurant sales	$ 17,574	$ 34,301	$ 47,000
Franchise fees, royalties and other	891	1,029	1,120
Total revenues	18,465	35,330	48,120
Costs and expenses:			
Cost of sales	4,208	8,954	12,899
Restaurant operating expenses	9,609	19,231	25,611
General and administrative	2,081	3,632	4,429
Depreciation and amortization	208	1,245	1,654
Restaurant closure costs	--	432	--
Total costs and expenses	16,106	33,494	44,593
Infrequently occurring income items, net	--	--	--
Operating income	2,359	1,836	3,527
Other income (expense)	367	(171)	(385)
Income before income tax expense	$ 2,726	$ 1,665	$ 3,142
Extraordinary item.............................	$ --	$ --	$ 40
Net income	$ 1,868	$ 1,015	$ 1,973
Net income per share (diluted)	$ 0.53	$ 0.28	$ 0.55

	FISCAL YEARS		
	1996	1997	1998(1)
	(Dollars in thousands)		
BALANCE SHEET DATA:			
Working capital (deficit)	$ 6,857	$ (2,023)	$ (1,047)
Total assets	$ 12,146	$ 26,508	$ 23,421
Long-term debt, less current portion.............................	$ --	$ 10,107	$ 2,870
Total stockholders' equity	$ 10,720	$ 11,735	$ 13,559

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(1) The fiscal year 1998 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note: Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Reform Act. See "Special Note Regarding Forward-Looking Statements" above for additional factors relating to such statements.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Report.

GENERAL

The Company was organized under the laws of the State of Texas on February 16, 1996. Pursuant to the reorganization of the Company in preparation for the initial public offering, the shareholders of the prior corporations contributed to the Company all outstanding shares of capital stock of each corporation, and the Company issued to such shareholders in exchange therefor an aggregate of 2,732,705 shares of its Common Stock. The exchange transaction was completed April 24, 1996, and, as a result, the corporations became wholly-owned subsidiaries of the Company, and each shareholder of the Company received a number of shares of Common Stock in the Company.

The Company's primary source of revenues is the sale of food and beverages at Company-owned restaurants. The Company also derives revenues from franchise fees, royalties and other franchise-related activities. Franchise fee revenue from an individual franchise sale is recognized when all services relating to the sale have been performed and the restaurant has commenced operation. Initial franchise fees relating to area franchise sales are recognized ratably in proportion to services that are required to be performed pursuant to the area franchise or development agreements and proportionately as the restaurants within the area are opened.

FISCAL YEAR

The Company has a 52/53 week fiscal year ending on a Sunday nearest December 31. References in this Report to fiscal 1998, 1999 and 2000 relate to the periods ended January 3, 1999, January 2, 2000 and December 31, 2000, respectively. Fiscal years 1999 and 2000 presented herein consisted of 52 weeks. Fiscal year 1998 consisted of 53 weeks.

RESULTS OF OPERATIONS

FISCAL 2000 COMPARED TO FISCAL 1999

REVENUES. Fiscal 2000 revenues increased 10.0% to $63.2 million. Restaurant sales increased 10.4% to $61.8 million. La Senorita, which was acquired on April 30, 1999, contributed $2.2 million of the $5.7 million increase in restaurant sales. One new restaurant was opened, one restaurant was reopened, and three restaurants were closed during the year. Total system same-store sales (including La Senorita) were up 2.7%. Company-owned same store sales were up 3.2% and franchise-owned same-store sales were up 2.1%. Due to new store development of higher volume Tortuga Coastal Cantina and La Senorita restaurants, company-owned average weekly sales increased 6.1%.

Franchise fees, royalties and other decreased 7.3% or $107,000 to $1.4

million. The decrease was due to other miscellaneous revenues decreasing as the Company quit selling certain merchandise items in the restaurants.

COSTS AND EXPENSES. Costs of sales, consisting of food, beverage, liquor, supplies and paper costs, decreased slightly as a percent of sales to 28.1% compared with 28.2% in fiscal 1999. The decrease was due to efforts with suppliers to generate costs savings coupled with a decrease in cheese prices. These were offset by significant increases in the cost of beef, guacamole and tequila. Moderate price increases during the year also helped to keep costs down as a percent of sales.

Labor and other related expenses increased 10 basis points to 33.6% compared with 33.5% in fiscal 1999. The increase was primarily due to higher labor costs associated with new store development, as well as the tight labor markets. Also, workers' compensation and health insurance expenses increased on a comparable basis. Offsetting these increases were labor efficiencies within the restaurants that were opened during fiscal 1999.

Restaurant operating expenses increased to 24.3% of restaurant sales compared with 22.6% in fiscal 1999. The increase was due to a combination of higher utility costs, increased repairs and maintenance, increased property taxes and rent. Utility costs increased due to the higher energy costs. Older facilities contributed to the increased repairs. The addition of the Tortuga Coastal Cantina and La Senorita restaurants and their related capital additions resulted in an increase in rental expense and property taxes.

General and administrative expenses (G&A) decreased from 9.0% of total sales in fiscal year 1999 to 8.8% in fiscal year 2000. The decrease was primarily due to the absorption of general and administrative expenses over a larger revenue base. Fiscal year 1999 also included $62,000 in write-offs of site development costs.

Depreciation and amortization increased by 23.6% to $2.1 million. This increase is primarily due to the La Senorita acquisition in May 1999 and capital additions during 1999 as five new restaurants were opened and nine restaurants were remodeled resulting in a full year's depreciation during fiscal year 2000. Also during the year, two additional restaurants were opened and four were remodeled.

Pre-opening costs decreased by 60.8% as the number of stores opened decreased from 6 to 2.

During fiscal year 1999, the Company expensed $1.5 million related to restaurant closure and asset impairment costs. There were no impairments recorded in fiscal year 2000.

Infrequently occurring (income) and expense in 1999 consisted of two items that increased operating income in the aggregate by $437,684. There were no such items in fiscal year 2000.

OTHER INCOME (EXPENSE). Interest expense increased by $373,861 due to a higher average debt balance and higher interest rates. The Company borrowed $4.2 million to finance the La Senorita acquisition in May 1999 and also borrowed to finance investments in new stores throughout 1999, increasing debt from $2,870,000 to $8,963,320 during the year. Debt was decreased by $663,320 during 2000, but the average balance remained higher than in 1999. Interest rates have

increased by 2% over the beginning of 1999, further contributing to the increased expense.

Other income and expense items decreased from a net expense of $42,426 to a net expense of $19,242.

INCOME TAX EXPENSE. The Company's effective tax rate for fiscal 2000 was 35.0% compared with 42.9% in fiscal 1999. The lower rate is due to the effect of higher tax credits on lower income before taxes.

FISCAL 1999 COMPARED TO FISCAL 1998

REVENUES. Fiscal 1999 revenues increased $9.3 million or 19.4% to $57.5 million. Restaurant sales increased $9.0 million or 19.1% to $56.0 million. La Senorita, which was acquired on April 30, 1999, contributed $5.3 million in restaurant sales. Five new restaurants were opened, one restaurant was reopened, and two restaurant were closed (leases expired) during the year. Total system same-store sales (including La Senorita) were down 1%. Company-owned same store sales were down 2.1% and franchise-owned same-store sales were up 0.5%. Due to new store development of higher volume Tortuga Coastal Cantina and La Senorita restaurants, company-owned average weekly sales increased 5.5%.

Franchise fees and royalties increased 19.2% or $205,000 to $1.3 million. Two franchise restaurants were closed (one of which was acquired by the Company and converted into a Tortuga Coastal Cantina), one franchise restaurant was opened and four franchise restaurants were acquired through the La Senorita acquisition.

COSTS AND EXPENSES. Costs of sales, consisting of food, beverage, liquor, supplies and paper costs, increased 80 basis points to 28.2% compared with 27.4% in fiscal 1998. The increase was primarily due to higher costs of sales associated with new store development, the acquisition of La Senorita and the non-core stores located in Idaho and Tennessee. Cheese prices were also higher during fiscal year 1999.

Labor and other related expenses increased 50 basis points to 33.5% compared with 33.0% in fiscal 1998. Again, the increase was primarily due to higher labor costs associated with new store development, the acquisition of La Senorita and the non-core stores located in Idaho and Tennessee.

Restaurant operating expenses increased 110 basis points to 22.6% compared with 21.5% in fiscal 1998. The increase was primarily due to last year's $11.5 million sale and leaseback transaction (closed on June 25, 1998) which increased rent expense.

General and administrative expenses (G&A) decreased 20 basis points to 9.0% compared with 9.2% in fiscal year 1998. The decrease was primarily due to the absorption of general and administrative expenses over a larger revenue base. Fiscal year 1999 included $62,000 in write-offs of site development costs and fiscal year 1998 included a $60,000 recovery of a previously taken special charge.

Depreciation and amortization increased 30 basis points to 3.0% compared with 2.7% in fiscal 1998. This increase is primarily due to the La Senorita acquisition. Further, five restaurants were opened and nine restaurants were remodeled.

Pre-opening costs decreased 30 basis points to 0.5% compared with 0.8% in fiscal 1998. The prior year was impacted by the adoption of AICPA Statement of Position 98-5, "Reporting on the costs of Start-up Activities" ("SOP 98-5"), which requires that costs of start-up activities be expensed as incurred.

During fiscal year 1999, the Company evaluated certain properties and restaurants to determine if continued operation was consistent with the Company's strategy. As a result of this exercise, it was determined that certain assets were impaired and the Company expensed $1.5 million related to restaurant closure and asset impairment costs.

Infrequently occurring (income) and expense consisted of two items that increased operating income in the aggregate by $437,684. The Company sold one restaurant to the State of Texas (by eminent domain) for $1,150,000, resulting in a gain of $519,685. As part of the Company's decision to consolidate with a single outsourcing firm its accounting process, the Company settled its old outsourcing contract for $82,000.

OTHER INCOME (EXPENSE). Net other expense increased 10 basis points to 0.9% compared with 0.8% in fiscal 1998.

INCOME TAX EXPENSE. The Company's effective tax rate for fiscal 1999 was 42.9% compared with 38.5% in fiscal 1998. The higher rate is due to the effect of permanent tax differences on lower income before taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company met fiscal 2000 capital requirements with cash generated by operations. In fiscal 2000, the Company's operations generated approximately $3.5 million in cash, as compared with $3.6 million in fiscal 1999 and $2.1 million in fiscal 1998. As of December 31, 2000, the Company had a working capital deficit of approximately $1.9 million, compared with a working capital deficit of approximately $1.5 million at January 2, 2000. A working capital deficit is common in the restaurant industry, since restaurant companies do not typically require a significant investment in either accounts receivable or inventory.

The Company's principal capital requirements are the funding of new restaurant development or acquisitions and remodeling of older units. During fiscal 2000, capital expenditures on property, plant and equipment were approximately $2.8 million as compared to approximately $7.3 million for fiscal 1999. The Company opened one new restaurant, reopened an existing restaurant (a conversion from a Casa Ole to a Tortuga Coastal Cantina) and remodeled four restaurants. There are no new restaurants planned for fiscal 2001. The Company does plan to modestly remodel five restaurants in fiscal year 2001. The estimated capital needed for fiscal 2001 for general corporate purposes, including remodeling, is approximately $1.6 million. This estimate also includes five remodels, ranging from $50,000 to $130,000 per restaurant.

The Company has a $9.5 million credit facility with Bank of America. At December 31, 2001, the credit facility will be reduced to $8.5 million and will mature on July 15, 2002. The interest rate is either the prime rate or LIBOR plus a stipulated percentage. Accordingly, the Company is impacted by changes in the prime rate and LIBOR. The Company is subject to a non-use fee ranging from 0.25% to 0.5% on the unused portion of the revolver from the date of the credit agreement. As of December 31, 2000, the Company had $8.3 million outstanding on the revolving line of credit. The acquisition of La Senorita, which closed on April 30, 1999, used $4.2 million of the revolving line. The balance was used for new restaurant construction, remodeling and other working capital needs.

Bank of America notified the Company in early February 2001 that it was

asking the Company to find a replacement lender. They also indicated that to facilitate the effort they were moving the Company's account to the bank's Special Assets Group. As of December 31, 2000, the Company was in compliance with all of its loan covenants. However, based on tighter covenants that go into effect in the first quarter of fiscal 2001, the Company anticipates it maybe out of compliance with certain loan covenants at the end of the first and second quarters of fiscal 2001. The bank, in return for additional fees and an increase in interest rates, has agreed to waive the 2001 first and second quarter lack of compliance and amended certain future covenant ratios under the debt agreement. The Company has received and is evaluating alternative finance proposals from several lenders. The goal is to enter into a term loan for at least $5.0 million, and to establish a new revolving line of credit. Without property sales, the Company anticipates that it will use excess cash flow during fiscal 2001 to pay down approximately $2.0 million of outstanding indebtedness.

The Company also has a $9.8 million forward commitment agreement with Franchise Finance Corporation of America ("FFCA"). At December 31, 2000, the Company had approximately $9.8 million available under the FFCA forward commitments.

The Company's management believes that with its forward commitments with Franchise Finance Corporation of America, along with operating cash flow and the Company's revolving line of credit with Bank of America (and its successor), funds will be sufficient to meet operating requirements and to finance routine capital expenditures and remodels through the end of the 2001 fiscal year.

RISK FACTORS

The Company cautions readers that its business is subject to a number of risks, any of which could cause the actual results of the Company to differ materially from those indicated by forward-looking statements made from time to time in releases, including this Form 10-K, and oral statements. Certain risk factors have been presented throughout this document, including, among others, expansion strategy; site selection; attracting and retaining franchisees, managers and other employees; availability of food products; competition and government regulation. Certain other risks to which the Company is subject include:

SEASONALITY. The Company's sales and earnings fluctuate seasonally. Historically the Company's highest sales and earnings have occurred in the third and fourth calendar quarters, which the Company believes is typical of the restaurant industry and consumer spending patterns in general with respect to the third quarter and is due to increased holiday traffic at the Company's mall restaurants for the fourth quarter. In addition, quarterly results have been and, in the future are likely to be, substantially affected by the timing of new restaurant openings. Because of the seasonality of the Company's business and the impact of new restaurant openings, results for any calendar quarter are not necessarily indicative of the results that may be achieved for a full fiscal year and cannot be used to indicate financial performance for the entire year.

IMPACT OF INFLATION & MARKET RISKS. The Company does not believe that inflation has materially impacted net income during the past three years. Substantial increases in costs and expenses, particularly food, supplies, labor and operating expenses, could have a significant impact on the Company's operating results to the extent such increases cannot be passed along to customers. If operating expenses increase, management intends to attempt to recover increased costs by

increasing prices to the extent deemed advisable considering competitive conditions. The Company does not have or participate in transactions involving derivative, financial and commodity instruments.

ACCELERATING GROWTH STRATEGY. The Company's ability to expand by adding Company-owned and franchised restaurants and acquisitions will depend on a number of factors, including the availability of suitable locations, the ability to hire, train and retain an adequate number of experienced management and hourly employees, the availability of acceptable lease terms and adequate financing, timely construction of restaurants, the ability to obtain various government permits and licenses and other factors, some of which are beyond the control of the Company and its franchisees. The opening of additional franchised restaurants will depend, in part, upon the ability of existing and future franchisees to obtain financing or investment capital adequate to meet their market development obligations. There can be no assurance that the Company will be able to open the number of restaurants it currently plans to open or that new restaurants can be operated profitably. Expansion into new geographic markets in which the Company has no operating experiences and in which Mexican and Tex-Mex food restaurants are less prevalent than in Texas has an inherent risk. Consumer tastes vary from region to region in the United States, and there can be no assurance that customers located in the regions of the United States into which the Company intends to expand will be as receptive to Mexican and Tex-Mex food as those customers in its existing markets. There can be no assurance as to the success of the Company's efforts to expand into other geographic regions or that the cost of such efforts will not have a material adverse effect on the Company's results of operations or financial condition.

SMALL RESTAURANT BASE AND GEOGRAPHIC CONCENTRATION. The results achieved to date by the Company's relatively small restaurant base may not be indicative of the results of a larger number of restaurants in a more geographically dispersed area. Because of the Company's relatively small restaurant base, an unsuccessful new restaurant could have a more significant effect on the Company's results of operations than would be the case in a company owning more restaurants. Additionally, given the Company's present geographic concentration (all Company-owned units are currently in Texas, Oklahoma, Michigan and Idaho), results of operations may be adversely affected by economic or other conditions in the region and adverse publicity relating to the Company's restaurants could have a more pronounced adverse effect on the Company's overall sales than might be the case if the Company's restaurants were more broadly dispersed.

CONTROL OF THE COMPANY BY MANAGEMENT AND DIRECTORS. Approximately 47% of the Common Stock and rights to acquire Common Stock of the Company are beneficially owned or held by Larry N. Forehand, David Nierenberg, Michael D. Domec and Louis P. Neeb, directors and/or executive officers of the Company.

SHARES ELIGIBLE FOR FUTURE SALE AND STOCK PRICE. Sales of substantial amounts of shares in the public market could adversely affect the market price of the Common Stock. The Company has granted limited registration rights to holders of warrants granted by the Company and Larry N. Forehand to Louis P. Neeb, Tex-Mex Partners, L.C. and a former officer of the Company to register the 880,766 underlying shares of Common Stock covered by such warrants in connection with registrations otherwise undertaken by the Company. In any event, the market price of the Common Stock could be subject to significant fluctuations in response to the Company's operating results and other factors.

COMPETITION. The restaurant industry is intensely competitive. The

Company competes against other family dining concepts, as well as quick service and casual dining concepts, for customers, employees, and franchisees. See "Item 1. Business--Competition."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have or participate in transactions involving derivative, financial and commodity instruments. The Company's long-term debt bears interest at floating market rates. Based on amounts outstanding at year-end, a 1% change in interest rates would change interest expense by approximately $83,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements and Supplementary Data are set forth herein commencing on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item is incorporated

herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of Report.

1. Financial Statements:

The Financial Statements are listed in the index to Consolidated Financial Statements on page F-1 of this Report.

2. Exhibits:

+/-2.1 Stock Purchase Agreement with Purchase of Designated Assets, dated as of January 12, 1999, by and among the Company, La Senorita Restaurants Acquisition Corp., a Delaware corporation and wholly owned subsidiary of the Company, La Senorita Traverse City, Inc., Kleinrichert Bros., Inc., La Senorita Mt. Pleasant, Inc., KMANCO, Inc., La Senorita Lansing, Inc., Kenneth Kleinrichert, Donald Kleinrichert, Joseph Kleinrichert, The Joseph Kleinrichert Trust and Steve Arnot.

#3.1 Articles of Incorporation of the Company (as amended).

++3.2 Bylaws of the Company.

++4.1 Specimen of Certificate of Common Stock of the Company.

++4.2 Articles of Incorporation of the Company (see 3.1 above).

++4.3 Bylaws of the Company (see 3.2 above).

++10.1 Employment Agreement by and between the Company and Louis P. Neeb dated February 28, 1996.

++10.2 Employment Agreement by and between the Company and Patrick A. Morris dated February 28, 1996.

++10.3 Employment Agreement by and between the Company and Stacy M. Riffe dated February 28, 1996.

++10.4 Indemnity Agreement by and between the Company and Louis P. Neeb dated as of April 10, 1996.

++10.5 Indemnity Agreement by and between the Company and Larry N. Forehand dated as of April 10, 1996.

++10.6	Indemnity Agreement by and between the Company and John C. Textor dated as of April 10, 1996.
++10.7	Indemnity Agreement by and between the Company and Patrick A. Morris dated as of April 10, 1996.
++10.8	Indemnity Agreement by and between the Company and Michael D. Domec dated as of April 10, 1996.
++10.9	Indemnity Agreement by and between the Company and Stacy M. Riffe dated as of April 10, 1996.
++10.10	Indemnity Agreement by and between the Company and J.J. Fitzsimmons dated as of April 10, 1996.
++10.11	Indemnity Agreement by and between the Company and Richard E. Rivera dated as of April 10, 1996.
++10.12	Corrected Warrant Agreement by and between the Company and Louis P. Neeb dated as of February 26, 1996.
++10.13	Corrected Warrant Agreement by and between the Company and Tex-Mex Partners, L.C. dated as of February 26, 1996.
++10.14	Form of the Company's Multi-Unit Development Agreement.
++10.15	Form of the Company's Franchise Agreement.
+++10.16	1996 Long Term Incentive Plan.
+++10.17	Stock Option Plan for Non-Employee Directors.
++10.18	Lease Agreement, dated July 15, 1977, between Weingarten Realty, Inc. and Fiesta Restaurants, Inc., for property located at 1020 Federal Road, Houston, Texas (Casa Ole No. 4).
++10.19	Lease Agreement, dated July 12, 1978, between W & W Investments, a Texas partnership, and Fiesta Restaurants, Inc., for property located at 2727 John Ben Shepperd Pkwy, Odessa, Texas (Casa Ole No. 8).
++10.20	Lease Agreement, dated August 11, 1986, between Hartford-Lubbock Limited Partnership, a Texas limited partnership, and Casa Ole No. 10, Inc., for property located at 4413 South Loop 289, Lubbock, Texas (Casa Ole No. 10).
++10.21	Lease Agreement, dated July 29, 1983, between Phil R. Kensinger, Trustee, and Quality Mexican Restaurants, Inc., for property located at 12203 Murphy Rd., Stafford, Texas (Casa Ole No. 13).
++10.22	Lease Agreement, dated July 17, 1987, between Leroy Melcher and Fiesta Restaurants, Inc., for property located at 3121 Palmer Hwy, Texas City, Texas (Casa Ole No. 14).
++10.23	Lease Agreement, dated February 17, 1981, between

Eldred Doty, wife Joyce C. Doty and Fiesta Restaurants, Inc., for property located at 3121 Palmer Hwy, Texas City, Texas (Casa Ole No. 14).

++10.24 Lease Agreement, dated May 16, 1983, between CBL Management, Inc., a Tennessee corporation, and Fiesta Restaurants, Inc., d/b/a Casa Ole, for property located at Post Oak Mall #3026, College Station, Texas (Casa Ole No. 22).

++10.25 Lease Agreement, dated June 5, 1985, between David Z. Mafrige Interests and Fiesta Restaurants, Inc., for property located at 12350 Gulf Freeway, Houston, Texas (Casa Ole No. 28).

++10.26 Lease Agreement, dated March 13, 1985, between Plantation Village Plaza Joint Venture and Fiesta Restaurants, Inc., for property located at 415 This Way, Lake Jackson, Texas (Casa Ole No. 29).

++10.27 Lease Agreement, dated August 6, 1985, between Dalsan Properties--Waco II, Service Life and Casualty Insurance Co. and Casa Ole No 34, Inc., for property located at 414 N. Valley Mills Dr., Waco, Texas (Casa Ole No. 34).

++10.28 Lease Agreement, dated May 6, 1976, between Federated Store Realty, Inc., Prudential Insurance Company of America and Fiesta Restaurants, Inc., for property located at 263 Greenspoint Mall, Houston, Texas (Casa Ole No. 35).

++10.29 Lease Agreement, dated May 30, 1989, between Temple Mall Company, a Texas General Partnership, and Casa Ole Franchise Services, Inc., for property located at 3049 S. 31st Street, Temple, Texas (Casa Ole No. 37).

++10.30 Lease Agreement, dated May 3, 1995, between CO Properties No. 3, a Texas general partnership, and Casa Ole Franchise Services, Inc., for property located at 1135 Edgebrook, Houston, Texas.

++10.31 Corrected Warrant Agreement by and between Larry N. Forehand and Louis P. Neeb dated as of February 26, 1996.

++10.32 Corrected Warrant Agreement by and between Larry N. Forehand and Tex-Mex Partners, L.C. dated as of February 26, 1996.

++10.33 Corrected Warrant Agreement by and between Larry N. Forehand and Patrick A. Morris dated as of February 26, 1996.

++10.34 Corrected Warrant Agreement by and between Larry N. Forehand and Stacy M. Riffe dated as of February 26, 1996.

++10.35	Indemnification letter agreement by Larry N. Forehand dated April 10, 1996.
+10.36	1996 Manager's Stock Option Plan (incorporated by reference to Exhibit 99.2 of the Company's Form S-8 Registration Statement Under the Securities Act of 1933, dated February 24, 1997, filed by the Company with the Securities and Exchange Commission).
**10.37	Lease Agreement, dated June 21, 1996, between Sam Jack McGlasson and Casa Ole Restaurants, Inc., for property located at 725 North Loop 340, Bellmead, Texas (Casa Ole No. 51).
**10.38	Amended Lease Agreement, dated November 7,1996, between The Prudential Insurance Company of America, by and through its Agent, Terranomics Retail Services, Inc. and Casa Ole Restaurants, Inc., for property located at 263 Greenspoint Mall, Houston, Texas (Casa Ole No. 35).
**10.39	Assignment of Lease and Consent to Assign, dated October 11, 1996, between Roy M. Smith and W.M. Bevly d/b/a Padre Staples Mall (landlord) and Pepe, Inc. d/b/a Casa Ole Restaurant and Cantina (tenant/assignor) and Jack Goodwin (guarantor) and Casa Ole No. 29, Inc., for property located at 1184 Padre Staples Mall, Corpus Christi, Texas (Casa Ole No. 36).
**10.40	Option Contract and Agreement dated January 11, 1997, between Casa Ole of Beaumont, Inc., a Texas corporation, and Casa Ole Restaurants, Inc.
**10.41	$750,000 Promissory Note, dated December 30, 1996, between Casa Ole No. 29, Inc. and Rainbolt, Inc. for the purchase of Victoria, Texas restaurant (Casa Ole No. 15).
10.42	Credit Agreement Between Casa Ole Restaurants, Inc., as the Borrower, and NationsBank of Texas, N.A., as the Bank, for $10,000,000, dated July 10, 1996 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q Quarterly Report Under the Securities Exchange Act of 1934, dated August 22, 1996, filed by the Company with the Securities and Exchange Commission).
**10.43	Amendment No. 1, dated January 13, 1997, to the Credit Agreement Between Casa Ole Restaurants, Inc., as the Borrower, and NationsBank of Texas, N.A., as the Bank, for $10,000,000, dated July 10, 1996.
**10.44	Employment Agreement by and between the Company and Curt Glowacki dated May 15, 1997.
**10.45	Employment Agreement by and between the Company and Andrew J. Dennard dated May 20, 1997.
+10.46	Form of Executive Officer Stock Purchase Letters.

++21.1 List of subsidiaries of the Company (incorporated by reference to Exhibit 22.1 of the Company's Form S-1 Registration Statement Under the Securities Act of 1933, dated April 24,1996, filed by the Company with the Securities and Exchange Commission).

*23.1 Consent of KPMG LLP.

*24.1 Power of Attorney (included on the signature page to this Form 10-K).

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* Filed herewith.

** Incorporated by reference to corresponding Exhibit number of the Company's (then known as Casa Ole Restaurants, Inc.) Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, dated March 24, 1997, filed by the Company with the Securities and Exchange Commission.

+/- Incorporated by reference to corresponding Exhibit 2.1 of the Company's (then known as Casa Ole Restaurants, Inc.) Form 8-K filed by the Company on May 14, 1999 with the Securities and Exchange Commission.

* Incorporated by reference to corresponding Exhibit number of the Company's Form 8K filed by the Company on May 25, 1999 with the Securities and Exchange Commission.

++ Incorporated by reference to corresponding Exhibit number of the Company's (then known as Casa Ole Restaurants, Inc.) Form S-1 Registration Statement Under the Securities Act of 1933, dated April 24, 1996, filed by the Company with the Securities and Exchange Commission.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

There were no reports on Form 8-K during the last quarter of the period covered by this report.

MEXICAN RESTAURANTS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors..........

Consolidated Balance Sheets as of January 2, 2000 and December 31, 2000..........

Consolidated Statements of Income for each of the years in the three fiscal-year period ended December 31, 2000..........

Consolidated Statements of Stockholders' Equity for each of the years in the three fiscal-year period ended December 31, 2000..........

Consolidated Statements of Cash Flows for each of the years in the three fiscal-year period ended December 31, 2000..........

Notes to Consolidated Financial Statements..........

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Mexican Restaurants, Inc.:

We have audited the accompanying consolidated balance sheets of Mexican Restaurants, Inc. and subsidiaries (the Company) as of January 2, 2000 and December 31, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mexican Restaurants, Inc. and subsidiaries as of January 2, 2000 and December 31, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Houston, Texas
March 2, 2001,
except as to Note 3 which
is as of April 17, 2001

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MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JANUARY 2, 2000 AND DECEMBER 31, 2000

	FISCAL YEA
	1999
ASSETS	
Current assets:	
Cash and cash equivalents	$ 743,935
Royalties receivable	42,660
Other receivables	448,468
Inventory	701,195
Taxes receivable	120,427
Prepaid expenses	522,379
Total current assets	2,579,064
Property, plant and equipment	23,148,394
Less accumulated depreciation	(5,727,517)
Net property, plant and equipment	17,420,877
Deferred tax assets	1,390,873
Property held for resale	1,100,000
Other assets	8,552,487
	$ 31,043,301
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,422,503
Accrued sales and liquor taxes	175,932
Accrued payroll and taxes	877,085
Accrued expenses	587,116

Total current liabilities	4,062,636
Long-term debt	8,963,320
Other liabilities	372,571
Deferred gain	3,252,440
Stockholders' equity:	
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	--
Capital stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued	47,327
Additional paid-in capital	20,537,076
Retained earnings	5,157,931
Deferred Compensation	--
Treasury stock, cost of 1,135,000 common shares in 1999 and 1,200,400 common shares in 2000	(11,350,000)
Total stockholders' equity	14,392,334
	$ 31,043,301

See accompanying notes to consolidated financial statements.

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MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE FISCAL YEARS ENDED JANUARY 3, 1999
JANUARY 2, 2000 AND DECEMBER 31, 2000

		FISCAL YEARS
	1998	1999
Revenues:		
Restaurant sales	$ 46,999,835	$ 55,997,170
Franchise fees, royalties and other	1,120,619	1,468,596
	48,120,454	57,465,766
Costs and expenses:		
Cost of sales	12,898,673	15,773,922
Labor	15,503,584	18,785,669
Restaurant operating expenses	10,106,957	12,662,395
General and administrative	4,429,375	5,191,043
Depreciation and amortization	1,292,394	1,708,965
Pre-opening costs	362,189	293,931
Asset impairments and restaurant closure costs	--	1,493,449

	44,593,172	55,909,374
Infrequently occurring income items, net	--	437,684
Operating income	3,527,282	1,994,076
Other income (expense):		
Interest income	41,817	21,304
Interest expense	(524,413)	(491,494)
Other, net	97,718	(63,730)
	(384,878)	(533,920)
Income before income tax expense and extraordinary item	3,142,404	1,460,156
Income tax expense	1,209,825	627,032
Income before extraordinary item	1,932,579	833,124
Extraordinary item (net of tax of $25,025)	39,975	--
Net income	$ 1,972,554	$ 833,124
Basic income per share (before extraordinary item)	$ .54	$ .23
Basic income per share (extraordinary item)	$ .01	$ --
Basic income per share	$ .55	$ .23
Diluted income per share (before extraordinary item)	$ .54	$ .23
Diluted income per share (extraordinary item)	$ .01	$ --
Diluted income per share	$ .55	$ .23
Weighted average number of shares (basic and diluted)	3,600,429	3,603,712

See accompanying notes to consolidated financial statements.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED
JANUARY 3, 1999, JANUARY 2, 2000
AND DECEMBER 31, 2000

	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
Balances at December 28, 1997	$ 47,327	$ 20,685,610	$ 2,352,253	$(11,350,0
Warrants purchased	--	(148,534)	--	
Net income	--	--	1,972,554	
Balances at January 3, 1999	$ 47,327	$ 20,537,076	$ 4,324,807	$(11,350,0
Net income	--	--	833,124	
Balances at January 2, 2000	$ 47,327	$ 20,537,076	$ 5,157,931	$(11,350,0
Net income	--	--	867,190	
Issuance of Restricted Stock	--	(416,000)	--	622,5
Repurchase of shares	--	--	--	(405,8
Amortization of Deferred Compensation	--	--	--	
Balances at December 31, 2000	$ 47,327	$ 20,121,076	$ 6,025,121	$(11,133,3

See accompanying notes to consolidated financial statements.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 2000, AND DECEMBER 31, 2000

	1998
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 1,972,554

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,654,583
Deferred gain amortization	(116,634)
Asset impairments and restaurant closure costs	--
Gain on early extinguishment of debt	(39,975)
Gain on sale of fixed assets	(7,188)
Deferred compensation expense	--
Deferred income taxes	(639,065)
Changes in assets and liabilities, net of effects of acquisitions:	
Royalties receivable	41,253
Receivable from affiliates	13,000
Other receivables	(90,270)
Taxes receivable/payable	(469,888)
Inventory	(43,819)
Prepaids and other current assets	(134,502)
Other assets	(6,448)
Accounts payable	357,556
Accrued expenses and other liabilities	(501,328)
Deferred franchise fees and other long-term liabilities	93,789
Total adjustments	111,064
Net cash provided by operating activities	2,083,618
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payment for purchase of acquisition, net of cash acquired	--
Purchase of property, plant and equipment	(5,665,556)
Proceeds from sale of property, plant and equipment	11,360,632
Net cash provided by (used in) investing activities	5,695,076
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from minority partners' contributions	20,000
Net borrowings under line of credit agreement	2,247,153
Purchase of treasury stock	--
Payments of notes payable	(10,569,024)
Net cash provided by (used in) financing activities	(8,301,871)
Increase (decrease) in cash and cash equivalents	(523,177)
Cash and cash equivalents at beginning of year	986,024
Cash and cash equivalents at end of year	$ 462,847
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year:	
Interest	$ 692,763
Income taxes	2,178,856
Non-cash financing activities:	
Exchange of equipment for note balance	200,004
Undeveloped site exchanged for purchase of restaurant	277,771
Exchange of note for warrants	148,534
Issuance of restricted stock	--

See accompanying notes to consolidated financial statements.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 3, 1999, JANUARY 2, 2000 AND DECEMBER 31, 2000

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

On February 16, 1996, Mexican Restaurants, Inc. (formerly Casa Ole Restaurants, Inc.) was incorporated in the State of Texas, and on April 24, 1996, its initial public offering of 2,000,000 shares of Common Stock became effective. Mexican Restaurants, Inc. is the holding company for Casa Ole Franchise Services, Inc. and several subsidiary restaurant operating corporations (collectively the "Company"). Casa Ole Franchise Services, Inc. was incorporated in 1977, and derives its revenues from the collection of franchise fees under a series of protected location franchise agreements and from the sale of restaurant accessories to the franchisees of those protected location franchise agreements. The restaurants feature moderately priced Mexican and Tex-Mex food served in a casual atmosphere. The first Casa Ole restaurant was opened in 1973.

On July 2, 1997, the Company purchased 100% of the outstanding stock of Monterey's Acquisition Corp. ("MAC"). The Company purchased the shares of common stock for $4.0 million, paid off outstanding debt and accrued interest totaling $7.1 million and funded various other agreed upon items approximating $500,000. Approximately $4.8 million of goodwill was recorded as a result of this purchase. At the time of the acquisition, MAC owned and operated 26 restaurants in Texas and Oklahoma under the names "Monterey's Tex-Mex Cafe," "Monterey's Little Mexico" and "Tortuga Coastal Cantina."

On April 30, 1999, the Company purchased 100% of the outstanding stock of La Senorita Restaurants, a Mexican restaurant chain operated in the State of Michigan. The Company purchased the shares of common stock of La Senorita for $4.0 million. The transaction was funded with the Company's revolving line of credit with Bank of America. La Senorita operates five company-owned restaurants, and has four franchise restaurants. One of the franchise restaurants is owned by a partnership in which the parent company has a 17.5% limited interest.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Mexican Restaurants, Inc. and its wholly owned subsidiaries, after elimination of all significant inter-company transactions. The Company owns and operates various Mexican restaurant concepts principally in Texas, Oklahoma, Idaho and Michigan. The Company also franchises the Casa Ole concept principally in Texas and Louisiana and the La Senorita concept principally in the State of Michigan.

(c) Fiscal Year

The Company maintains its accounting records on a 52/53 week fiscal year ending on the Sunday nearest December 31. Fiscal year 1998 consisted of 53 weeks. Fiscal years 1999 and 2000 consisted of 52 weeks.

(d) Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(e) Inventory

Inventory, which is comprised of food and beverages, is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Miscellaneous restaurant supplies are included in inventory and valued on a specific identification basis.

(f) Pre-opening Costs

Pre-opening costs primarily consists of hiring and training employees associated with the opening of a new restaurant and are expensed upon the opening of the restaurant.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation on equipment and on buildings and improvements is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized straight-line over the shorter of the lease term plus options or estimated useful life of the assets.

Buildings and improvements........................	20-40 years
Vehicles..	5 years
Equipment...	3-15 years
Leasehold improvements............................	3-20 years

Significant expenditures that add materially to the utility or useful lives of property, plant and equipment are capitalized. All other maintenance and repair costs are charged to current operations. The cost and related accumulated depreciation of assets replaced, retired or otherwise disposed of are eliminated from the property accounts and any gain or loss is reflected as other income and expense. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount the carrying value exceeds the fair value of the asset. The Company recorded an impairment provision at January 2, 2000 of $1,493,449 relating to the impairment of assets at restaurants that have or will be closed. There were no such impairment costs during fiscal 1998 or fiscal 2000. Fiscal 1999 also included a gain on sale of $519,685 on a restaurant sold to the State of Texas (by eminent domain) for $1,150,000. Property held for resale is separately aggregated in the consolidated balance sheet and is recorded at January 2, 2000 and December 31,

2000 at $1,100,000 which approximates fair value.

(h) Other Assets

At December 31, 2000, other assets included $7.7 million of goodwill, net of amortization primarily resulting from the MAC and La Senorita acquisitions. Goodwill is being amortized over 40 years for MAC and over 15 years for La Senorita. Accumulated amortization as of December 31, 2000 was $874,000. The Company assesses the recoverability of intangible assets by determining whether amortization of the asset balance over its remaining life can be recovered through undiscounted operating cash flows of the acquired operation. The Company believes that no impairment of goodwill exists.

(i) Income Taxes

Income taxes are provided based on the asset and liability method of accounting pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes.

(j) Franchise Fees

Franchise fee revenue from an individual franchise sale is recognized when all services relating to the sale have been performed and the restaurant has commenced operation. Initial franchise fees relating to area franchise sales are recognized ratably in proportion to services that are required to be performed pursuant to the area franchise or development agreements and proportionately as the restaurants within the area are opened.

(k) Stock Options

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and has accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price at the date of grant.

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Reclassification

Certain reclassifications have been made to the 1998 and 1999 amounts to conform to the 2000 presentation.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(n) Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), was issued by the Financial Accounting Standards Board in June 1998. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. The Company will adopt SFAS 133 beginning in fiscal year 2001. The Company does not expect the adoption of SFAS 133 to have a material effect on its financial condition or results of operation because the Company does not enter into derivative or other financial instruments for trading or speculative purposes nor does the Company use or intend to use derivative financial instruments or derivative commodity instruments.

(2) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at January 2, 2000 and December 31, 2000 were as follows:

	FISCAL YEARS	
	1999	2000
Land	$ 804,035	$ 637,412
Buildings and improvements	1,194,652	1,250,124
Vehicles	31,178	36,880
Equipment and smallwares	12,585,832	14,046,786
Leasehold improvements	8,372,093	9,480,865
Construction in progress	160,604	98,804
Total	$23,148,394	$25,550,871

(3) LONG-TERM DEBT

Long-term debt consists of the following at January 2, 2000 and December 31, 2000:

	FISCAL YEARS	
	1999	2000
Bank of America, Revolving Line of Credit	8,963,320	8,300,000
Less current installments	--	--
Long-term debt, excluding current installments	8,963,320	$8,300,000

On June 25, 1998, the Company completed an $11.5 million sale-leaseback transaction with Franchise Finance Corporation of America ("FFCA"). The proceeds from the sale-leaseback transaction were used to pay down most of the Company's outstanding debt with Bank of America. In fiscal year 1999, the Company amended its credit facility with Bank of America, increasing the facility to $10.0 million. The amendment also extended the maturity date of the facility to July

15, 2002 and reduced the facility by $500,000 at December 31, 2000 and $1.0 million at December 31, 2001. The interest rate is either the prime rate (9.5% as of December 31, 2000) or LIBOR plus a percentage ranging from 2% to 3%. The Company is subject to a non-use fee ranging from 0.25% to 0.5% on the unused portion of the revolver from the date of the credit agreement. The debt is unsecured except for the stock of subsidiaries. The terms of the agreement require the Company to meet certain financial covenants.

Bank of America notified the Company in early February 2001 that it was asking the Company to find a replacement lender. They also indicated that to facilitate the effort they were moving the Company's account to the bank's Special Assets Group. As of December 31, 2000, the Company was in compliance with all of its loan covenants. However, based on tighter covenants that go into effect in the first quarter of fiscal 2001, the Company anticipates it maybe out of compliance with certain loan covenants at the end of the first and second quarters of fiscal 2001. The bank, in return for additional fees and an increase in interest rates, has agreed to waive the 2001 first and second quarter lack of compliance and amended certain future covenant ratios under the debt agreement. The Company has received and is evaluating alternative finance proposals from several lenders.

Maturities on long-term debt are as follows:

2001..	--
2002..	8,300,000
	$8,300,000

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(4) INCOME TAXES

The provision for income tax expense is summarized as follows for fiscal years 1998, 1999 and 2000:

	1998	1999	2000
Current:			
Federal	$ 1,361,780	$ 1,004,217	$ 220,388
State and local	241,544	75,087	27,400
Deferred	(393,499)	(452,272)	223,212
	$ 1,209,825	$ 627,032	$ 471,000

The actual income tax expense differs from expected income tax expense calculated by applying the U.S. federal corporate tax rate to income before

income tax expense as follows:

	1998	1999	2000
Expected tax expense	$ 1,068,417	$ 496,453	$ 454,984
State tax expense, net	159,419	49,557	48,180
Non-deductible amortization	46,288	38,181	83,497
Tax credits	--	(28,992)	(129,690)
Other	(64,299)	71,833	14,029
	$ 1,209,825	$ 627,032	$ 471,000

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at January 2, 2000 and December 31, 2000 are as follows:

	JANUARY 2, 2000	DECEMBER 31, 2000
Deferred tax assets:		
Sale-leaseback	$ 1,203,403	$ 1,124,935
Tax credit carryforwards	--	152,293
Asset impairments	488,772	646,990
Accrued expenses	32,929	25,884
Other	20,157	41,754
	$ 1,745,261	$ 1,991,856
Deferred tax liabilities:		
Depreciation differences	$ (354,388)	$ (824,195)
Net deferred taxes	$ 1,390,873	$ 1,167,661

At January 2 and December 31, 2000, the Company determined that it was more likely than not that the deferred tax assets would be realized based on current projections of taxable income.

(5) COMMON STOCK, OPTIONS AND WARRANTS

(a) 1996 Long Term Incentive Plan

The Board of Directors and shareholders of the Company have approved the Mexican Restaurants, Inc. 1996 Long Term Incentive Plan (the "Incentive Plan"). The Incentive Plan, as amended, authorizes the granting of up to 500,000 shares of Common Stock in the form of incentive stock options and non-qualified stock options to key executives and other key employees of the Company, including officers of the Company and its subsidiaries. The purpose of the Incentive Plan is to attract and retain key employees, to motivate key employees to achieve long-range goals and to further align the interests of key employees with those of the other shareholders of the Company. Options granted under the

Incentive Plan will vest and become exercisable at the rate of 10% on the first anniversary of the date of grant, 15% on the second anniversary of the date of grant, and 25% on each of the third through fifth anniversaries of the date of grant.

(b) Stock Option Plan for Non-Employee Directors

The Company has adopted the Mexican Restaurants, Inc. Stock Option Plan for Non-Employee Directors (the "Directors Plan") for its outside directors and has reserved 100,000 shares of Common Stock for issuance thereunder. The Directors Plan provides that each outside director will automatically be granted an option to purchase 10,000 shares of Common Stock at the time of becoming a director. These options will be exercisable in 20% increments and will vest equally over the five-year period from the date of grant. Such options are priced at the fair market value at the time an individual is elected as a director. Each outside director receives options to purchase 1,500 shares of Common Stock quarterly, plus additional options for attendance at committee meetings, exercisable at the fair market value of the Common Stock at the close of business on the date immediately preceding the date of grant. Such annual options will vest at the conclusion of one year, so long as the individual remains a director of the Company. All stock options granted pursuant to the Directors Plan will be nonqualified stock options and will remain exercisable until the earlier of ten years from the date of grant or six months after the optionee ceases to be a director of the Company.

(c) 1996 Manager's Stock Option Plan

The Company has adopted the 1996 Manager's Stock Option Plan (the "Manager's Plan") specifically for its store-level managers. The Manager's Plan authorizes the granting of up to 200,000 shares of Common Stock in the form of non-qualified stock options to store-level managers of the Company. The purpose of the Manager's Plan is to attract, retain and motivate restaurant managers to achieve long-range goals and to further align the interests of those employees with those of the other shareholders of the Company. Options granted under the Manager's Plan will generally vest and become exercisable at the rate of 10% on the first anniversary of the date of grant, 15% on the second anniversary of the date of grant, and 25% on each of the third through fifth anniversaries of the date of grant.

(d) Warrants

In conjunction with the initial public offering, the Company entered into warrant agreements with Louis P. Neeb and Tex-Mex, a limited liability company of which John C. Textor (a member of the Board of Directors prior to February 14, 2000) is a principal, pursuant to which Mr. Neeb and Tex-Mex acquired warrants to purchase shares of Common Stock at the initial public offering ($11.00 per share) price less the amount paid for the warrant ($.10 per share) for an aggregate amount of Common Stock equal to ten percent (10%) of the shares of Common Stock of the Company outstanding upon consummation of the initial public offering, such shares to be allocated 5%, or 179,885 shares, to Mr. Neeb and 5%, or 179,885 shares, to Tex-Mex. The Company's warrants to Mr. Neeb became exercisable on the second anniversary of the initial public offering, and the Company's warrants to Tex-Mex became exercisable on the first anniversary of the initial public offering.

In late fiscal 1998 the Company exchanged a note valued in the amount of $148,534 (principal and accrued interest) for 98,301 warrants to purchase Common Stock previously held by a former officer of the Company. The warrants, which were granted by Larry N. Forehand with an exercise price of $10.90 per share, became exercisable in April 1998. Upon an exercise by Mr. Neeb or Tex-Mex of the warrants granted to them by the Company, the Company plans to exercise these newly acquired warrants simultaneously and use the warrant shares acquired from Mr. Forehand to satisfy its obligations under its warrant agreements with Mr. Neeb and Tex-Mex.

(e) Stock Transactions

During 1999 and 2000 the Company authorized the granting of 64,000 shares of restricted stock to key executives. The awards were valued at an average of $3.50 per share and will vest in 20% increments over a five year period from the date of the grant. Compensation expense of $34,981 was recognized in fiscal year 2000.

On June 1, 2000, the Company repurchased 120,000 shares of common stock for $375,000 in a private transaction. On October 23, 2000, the Company repurchased 9,400 shares from a former executive and current franchise holder for $30,843.

(f) Option and Warrant Summary

	Shares	Weighted Average Exercise Price
Balance at December 28, 1997	838,270	$ 9.66
Granted	69,000	$ 4.80
Exercised	--	--
Canceled	(43,000)	$10.91
Balance at January 3, 1999	864,270	$ 9.28
Granted	122,500	$ 4.18
Exercised	--	--
Canceled	(80,675)	$ 7.96
Balance at January 2, 2000	906,095	$ 8.71
Granted	82,800	$ 3.23
Exercised	--	--
Canceled	(84,950)	$ 7.96
	903,945	$ 8.29

The options (544,175) and warrants (359,770) outstanding at December 31, 2000 had exercise prices ranging between $1.75 to $13.25, of which

254,875 of the options had exercise prices ranging from $8.63 to $11.00, and 359,770 of the warrants had a exercise price of $10.90. As of December 31, 2000, 518,828 options and warrants were exercisable at an average price of $9.68.

(g) SFAS No. 123. "Accounting for Stock-Based Compensation"

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and has accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation cost has been recognized for stock options or warrants. Had compensation cost for the Company's outstanding stock options and warrants been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below for fiscal years 1998, 1999 and 2000:

	1998
Net income - as reported	$ 1,972,554
Pro forma net income - pro forma for SFAS No. 123	1,693,517
Net income per share - as reported	0.55
Pro forma net income per share - pro forma for SFAS No. 123	0.47

The weighted average fair value of the options and warrants granted during 1998, 1999 and 2000 is estimated at $1.99, $2.16 and $2.29 per share, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions: volatility of 34% for 1998, 52% for 1999, and 85% for 2000, risk-free interest rate of 6.5% for 1998, 5.8% for 1999, and 6.2% for 2000, an expected life of 5 years for options and 4 years for warrants and 0% dividend yield.

(h) Income Per Share

Basic income per share is based on the weighted average shares outstanding without any dilutive effects considered. Diluted income per share reflects dilution from all contingently issuable shares, including options and warrants. For fiscal years 1998, 1999 and 2000, the effect of dilutive stock options increase the weighted average shares outstanding by approximately 2,724, 6,007 and 1,054 shares respectively, which does not affect the determination of diluted income per share. Approximately 835,000, 860,000 and 899,000 options and warrants were considered antidilutive for 1998, 1999 and 2000, respectively.

(6) LEASES

The Company leases restaurant operating space and equipment under non-cancelable operating leases which expire at various dates through July 2017.

The restaurant operating space base agreements typically provide for a

minimum lease rent plus common area maintenance, insurance, and real estate taxes, plus additional percentage rent based upon revenues of the restaurant (generally 2% to 7%) and may be renewed for periods ranging from five to twenty-five years.

On June 25, 1998, the Company completed a sale-leaseback transaction involving the sale and leaseback of land, building and improvements of 13 company-owned restaurants. The properties were sold for $11.5 million and resulted in a gain of approximately $3.5 million that was deferred and is amortized over the terms of the leases, which are 15 years each. The leases are classified as operating leases in accordance with SFAS No. 13 "Accounting for Leases". The 13 leases have a total future minimum lease obligation of approximately $15,781,000. The Company also has a $9.8 million forward commitment agreement with Franchise Finance Corporation of America ("FFCA"). At December 31, 2000, the Company had approximately $9.8 million available under the FFCA forward commitments.

Future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2000 are approximately:

2001	$ 3,881,000
2002	3,774,000
2003	3,558,000
2004	3,231,000
2005	2,923,000
Thereafter	24,363,000
	$41,730,000

Rent expense for restaurant operating space and equipment amounted to approximately $2,751,000, $3,933,000 and $4,385,000 for the fiscal years 1998, 1999 and 2000, respectively.

(7) 401(k) PLAN

Beginning in fiscal year 1998, the Company established a defined contribution 401(k) plan that covers substantially all full-time employees meeting certain age and service requirements. Participating employees may elect to defer a percentage of their qualifying compensation as voluntary employee contributions. The Company may contribute additional amounts at the discretion of management. The Company did not make any contributions to the plan in 1998 or 1999. The company contributed $21,000 in 2000.

(8) RELATED PARTY TRANSACTIONS

Bay Area Management, Inc., owned entirely by the brother of a Company shareholder and director, provided accounting and administrative services on a fee basis, to all of the Company-owned Casa Ole restaurants and some franchise entities. The Company paid a termination fee of $82,000 and cancelled the contract during 1999. Total amounts paid to Bay Area Management, Inc. in fiscal 1998 and 1999 were $244,304 and $216,369, respectively.

The Company leases its executive offices from a company owned by two shareholders of Mexican Restaurants, Inc. Net lease expense related to these facilities in fiscal 1998, 1999 and 2000 was $60,000, $60,000 and $89,592 respectively.

In May 1998 the Board of Directors of the Company adopted a program to assist executives and five key employees of the Company in their purchasing of shares of the Company. The program provides for the Company to assist the executives and key employees in obtaining third party loans to finance such purchases. It also provides for annual cash bonuses to such executives to provide for payment of interest expense and principal amounts to amortize these loans in not more than five years. The bonus payments are based on attainment of earnings per share targets established by the Company's Board of Directors.

(9) CONTINGENCIES

The Company has litigation, claims and assessments that arise in the normal course of business. Management believes that the Company's financial position or results of operations will not be materially affected by such matters.

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MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(10) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited quarterly results for the fiscal year ended December 31, 2000 were as follows (in thousands, except per share data):

	FISCAL YEAR 2000 QUARTER ENDED			
	DECEMBER 31	OCTOBER 1	JULY 2	APRIL
Revenues	$ 15,105	$ 16,128	$ 16,070	$ 15,89
Operating income (loss)	$ (38)	$ 699	$ 772	$ 79
Net income (loss)	$ (219)	$ 313	$ 390	$ 38
Earnings (loss) per common share	$ (0.07)	$ 0.09	$ 0.11	$ 0.1
Earnings (loss) per common share-diluted	$ (0.07)	$ 0.09	$ 0.11	$ 0.1

	FISCAL YEAR 1999 QUARTER ENDED			
	DECEMBER 31	OCTOBER 1	JULY 2	APRIL
Revenues	$ 14,882	$15,783	$14,543	$12,25
Operating income (loss)	$ (985)	$ 983	$ 1,321	$ 67
Net income (loss)	$ (853)	$ 533	$ 759	$ 39
Earnings (loss) per common share	$ (0.24)	$ 0.15	$ 0.21	$ 0.1
Earnings (loss) per common share-diluted	$ (0.24)	$ 0.15	$ 0.21	$ 0.1

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEXICAN RESTAURANTS, INC.

By: /s/ Louis P. Neeb
Louis P. Neeb,
Chairman of the Board of Directors

POWER OF ATTORNEY

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Louis P. Neeb, Curt Glowacki and Andrew Dennard, and each of them, such individual's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such individual and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K under the Securities Exchange Act of 1934, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE
/s/ Louis P. Neeb Louis P. Neeb	Chairman of the Board of Directors
/s/ Larry N. Forehand Larry N. Forehand	Founder and Vice Chairman of the Board of Directors
/s/ Curt Glowacki Curt Glowacki	President and Chief Executive Officer (Principal Executive Officer)
/s/ Andrew J. Dennard Andrew J. Dennard	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ David Nierenberg David Nierenberg	Director
/s/ Michael D. Domec	Director

Michael D. Domec

/s/ J. J. Fitzsimmons --------------------------- J. J. Fitzsimmons	Director
/s/ Richard E. Rivera --------------------------- Richard E. Rivera	Director
/s/ J. Stuart Sargent --------------------------- J. Stuart Sargent	Director

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
+/-2.1	Stock Purchase Agreement with Purchase of Designated Assets, dated as of January 12, 1999, by and among the Company, La Senorita Restaurants Acquisition Corp., a Delaware corporation and wholly owned subsidiary of the Company, La Senorita Traverse City, Inc., Kleinrichert Bros., Inc., La Senorita Mt. Pleasant, Inc., KMANCO, Inc., La Senorita Lansing, Inc., Kenneth Kleinrichert, Donald Kleinrichert, Joseph Kleinrichert, The Joseph Kleinrichert Trust and Steve Arnot.
#3.1	Articles of Incorporation of the Company (as amended).
++3.2	Bylaws of the Company.
++4.1	Specimen of Certificate of Common Stock of the Company.
++4.2	Articles of Incorporation of the Company (see 3.1 above).
++4.3	Bylaws of the Company (see 3.2 above).
++10.1	Employment Agreement by and between the Company and Louis P. Neeb dated February 28, 1996.
++10.2	Employment Agreement by and between the Company and Patrick A. Morris dated February 28, 1996.
++10.3	Employment Agreement by and between the Company and Stacy M. Riffe dated February 28, 1996.
++10.4	Indemnity Agreement by and between the Company and Louis P. Neeb dated as of April 10, 1996.
++10.5	Indemnity Agreement by and between the Company and Larry N. Forehand dated as of April 10, 1996.

++10.6 Indemnity Agreement by and between the Company and John C. Textor dated as of April 10, 1996.

++10.7 Indemnity Agreement by and between the Company and Patrick A. Morris dated as of April 10, 1996.

++10.8 Indemnity Agreement by and between the Company and Michael D. Domec dated as of April 10, 1996.

++10.9 Indemnity Agreement by and between the Company and Stacy M. Riffe dated as of April 10, 1996.

++10.10 Indemnity Agreement by and between the Company and J.J. Fitzsimmons dated as of April 10, 1996.

++10.11 Indemnity Agreement by and between the Company and Richard E. Rivera dated as of April 10, 1996.

++10.12 Corrected Warrant Agreement by and between the Company and Louis P. Neeb dated as of February 26, 1996.

++10.13 Corrected Warrant Agreement by and between the Company and Tex-Mex Partners, L.C. dated as of February 26, 1996.

++10.14 Form of the Company's Multi-Unit Development Agreement.

++10.15 Form of the Company's Franchise Agreement.

+++10.16 1996 Long Term Incentive Plan.

+++10.17 Stock Option Plan for Non-Employee Directors.

++10.18 Lease Agreement, dated July 15, 1977, between Weingarten Realty, Inc. and Fiesta Restaurants, Inc., for property located at 1020 Federal Road, Houston, Texas (Casa Ole No. 4).

++10.19 Lease Agreement, dated July 12, 1978, between W & W Investments, a Texas partnership, and Fiesta Restaurants, Inc., for property located at 2727 John Ben Shepperd Pkwy, Odessa, Texas (Casa Ole No. 8).

++10.20 Lease Agreement, dated August 11, 1986, between Hartford-Lubbock Limited Partnership, a Texas limited partnership, and Casa Ole No. 10, Inc., for property located at 4413 South Loop 289, Lubbock, Texas (Casa Ole No. 10).

++10.21 Lease Agreement, dated July 29, 1983, between Phil R. Kensinger, Trustee, and Quality Mexican Restaurants, Inc., for property located at 12203 Murphy Rd., Stafford, Texas (Casa Ole No. 13).

++10.22 Lease Agreement, dated July 17, 1987, between Leroy Melcher and Fiesta Restaurants, Inc., for property located at 3121 Palmer Hwy, Texas City, Texas (Casa Ole No. 14).

++10.23 Lease Agreement, dated February 17, 1981, between Eldred Doty, wife Joyce C. Doty and Fiesta Restaurants, Inc., for property located at 3121 Palmer Hwy, Texas City, Texas (Casa Ole No. 14).

++10.24 Lease Agreement, dated May 16, 1983, between CBL Management, Inc., a Tennessee corporation, and Fiesta Restaurants, Inc., d/b/a Casa Ole, for property located at Post Oak Mall #3026, College Station, Texas (Casa Ole No. 22).

++10.25 Lease Agreement, dated June 5, 1985, between David Z. Mafrige Interests and Fiesta Restaurants, Inc., for property located at 12350 Gulf Freeway, Houston, Texas (Casa Ole No. 28).

++10.26 Lease Agreement, dated March 13, 1985, between Plantation Village Plaza Joint Venture and Fiesta Restaurants, Inc., for property located at 415 This Way, Lake Jackson, Texas (Casa Ole No. 29).

++10.27 Lease Agreement, dated August 6, 1985, between Dalsan Properties--Waco II, Service Life and Casualty Insurance Co. and Casa Ole No 34, Inc., for property located at 414 N. Valley Mills Dr., Waco, Texas (Casa Ole No. 34).

++10.28 Lease Agreement, dated May 6, 1976, between Federated Store Realty, Inc., Prudential Insurance Company of America and Fiesta Restaurants, Inc., for property located at 263 Greenspoint Mall, Houston, Texas (Casa Ole No. 35).

++10.29 Lease Agreement, dated May 30, 1989, between Temple Mall Company, a Texas General Partnership, and Casa Ole Franchise Services, Inc., for property located at 3049 S. 31st Street, Temple, Texas (Casa Ole No. 37).

++10.30 Lease Agreement, dated May 3, 1995, between CO Properties No. 3, a Texas general partnership, and Casa Ole Franchise Services, Inc., for property located at 1135 Edgebrook, Houston, Texas.

++10.31 Corrected Warrant Agreement by and between Larry N. Forehand and Louis P. Neeb dated as of February 26, 1996.

++10.32 Corrected Warrant Agreement by and between Larry N. Forehand and Tex-Mex Partners, L.C. dated as of February 26, 1996.

++10.33 Corrected Warrant Agreement by and between Larry N. Forehand and Patrick A. Morris dated as of February 26, 1996.

++10.34 Corrected Warrant Agreement by and between Larry N. Forehand and Stacy M. Riffe dated as of February 26, 1996.

++10.35 Indemnification letter agreement by Larry N. Forehand dated April 10, 1996.

+10.36 1996 Manager's Stock Option Plan (incorporated by reference to Exhibit 99.2 of the Company's Form S-8 Registration Statement Under the Securities Act of 1933, dated February 24, 1997, filed by the Company with the Securities and Exchange Commission).

**10.37 Lease Agreement, dated June 21, 1996, between Sam Jack McGlasson and Casa Ole Restaurants, Inc., for property located at 725 North Loop 340, Bellmead, Texas (Casa Ole No. 51).

**10.38 Amended Lease Agreement, dated November 7,1996, between The Prudential Insurance Company of America, by and through its Agent, Terranomics Retail Services, Inc. and Casa Ole Restaurants, Inc., for property located at 263 Greenspoint Mall, Houston, Texas (Casa Ole No. 35).

**10.39 Assignment of Lease and Consent to Assign, dated October 11, 1996, between Roy M. Smith and W.M. Bevly d/b/a Padre Staples Mall (landlord) and Pepe, Inc. d/b/a Casa Ole Restaurant and Cantina (tenant/assignor) and Jack Goodwin (guarantor) and Casa Ole No. 29, Inc., for property located at 1184 Padre Staples Mall, Corpus Christi, Texas (Casa Ole No. 36).

**10.40 Option Contract and Agreement dated January 11, 1997, between Casa Ole of Beaumont, Inc., a Texas corporation, and Casa Ole Restaurants, Inc.

**10.41 $750,000 Promissory Note, dated December 30, 1996, between Casa Ole No. 29, Inc. and Rainbolt, Inc. for the purchase of Victoria, Texas restaurant (Casa Ole No. 15).

10.42 Credit Agreement Between Casa Ole Restaurants, Inc., as the Borrower, and NationsBank of Texas, N.A., as the Bank, for $10,000,000, dated July 10, 1996 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q Quarterly Report Under the Securities Exchange Act of 1934, dated August 22, 1996, filed by the Company with the Securities and Exchange Commission).

**10.43 Amendment No. 1, dated January 13, 1997, to the Credit Agreement Between Casa Ole Restaurants, Inc., as the Borrower, and NationsBank of Texas, N.A., as the Bank, for $10,000,000, dated July 10, 1996.

**10.44 Employment Agreement by and between the Company and Curt Glowacki dated May 15, 1997.

**10.45 Employment Agreement by and between the Company and Andrew J. Dennard dated May 20, 1997.

+10.46 Form of Executive Officer Stock Purchase Letters.

++21.1 List of subsidiaries of the Company (incorporated by reference to Exhibit 22.1 of the Company's Form S-1 Registration Statement Under the Securities Act of 1933, dated April 24,1996, filed by the Company with the Securities and Exchange Commission).

*23.1 Consent of KPMG LLP.

*24.1 Power of Attorney (included on the signature page to this Form 10-K).

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* Filed herewith.

** Incorporated by reference to corresponding Exhibit number of the Company's (then known as Casa Ole Restaurants, Inc.) Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, dated March 24, 1997, filed by the Company with the Securities and Exchange Commission.

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+/- Incorporated by reference to corresponding Exhibit 2.1 of the Company's (then known as Casa Ole Restaurants, Inc.) Form 8-K filed by the Company on May 14, 1999 with the Securities and Exchange Commission.

\# Incorporated by reference to corresponding Exhibit number of the Company's Form 8K filed by the Company on May 25, 1999 with the Securities and Exchange Commission.

++ Incorporated by reference to corresponding Exhibit number of the Company's (then known as Casa Ole Restaurants, Inc.) Form S-1 Registration Statement Under the Securities Act of 1933, dated April 24, 1996, filed by the Company with the Securities and Exchange Commission.

\+ Management contract or compensatory plan or arrangement.