

**EXHIBIT H**  
**FINANCIAL STATEMENTS**

**The Johnny Rockets Group, Inc.  
and Subsidiaries**

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**Consolidated Financial Statements With Report of  
Independent Auditors**  
Years Ended April 30, 2006 and May 1, 2005

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# The Johnny Rockets Group, Inc. and Subsidiaries

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## Independent Auditors' Report

Board of Directors  
The Johnny Rockets Group, Inc. and Subsidiaries

We have audited the consolidated balance sheet of The Johnny Rockets Group, Inc. and Subsidiaries ("Company") as of April 30, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of May 1, 2005, were audited by other auditors whose report dated June 16, 2005, expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Johnny Rockets Group, Inc. and Subsidiaries at April 30, 2006, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

June 23, 2006

	April 30, 2006	May 1, 2005
<b>Assets (Note 5)</b>		
<b>Current assets:</b>		
Cash	\$ 10,080	\$ 6,872
Restricted cash	209	209
Franchise fees receivable	567	441
Inventories	997	921
Other receivables	140	104
Other current assets	380	120
Deferred taxes	2,939	2,355
<b>Total current assets</b>	<b>15,312</b>	<b>11,022</b>
<b>Property and equipment, at cost:</b>		
Furniture, fixtures and equipment	9,483	8,457
Leasehold improvements	14,922	13,442
	24,405	21,899
<b>Less accumulated depreciation and amortization</b>	<b>14,897</b>	<b>15,690</b>
<b>Net property and equipment</b>	<b>9,508</b>	<b>6,209</b>
<b>Other assets:</b>		
Goodwill	4,696	4,858
Other assets, net	247	163
Deferred taxes	6,130	4,985
	11,073	10,006
	\$ 35,893	\$ 27,237

# The Johnny Rockets Group, Inc. and Subsidiaries

## Consolidated Balance Sheets (in thousands, except per share and par value data)

	April 30, 2006	May 1, 2005
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 1,898	\$ 1,157
Accrued expenses	3,872	3,593
Accrued disposition reserves	354	769
Deferred franchise fees, current portion	543	626
Total current liabilities	6,667	6,145
Deferred franchise fees, net of current portion	1,821	1,840
Other long-term liabilities	6,245	4,786
Total liabilities	14,733	12,771
Minority interest	-	20
Commitments and contingencies		
Shareholders' equity:		
Series A convertible preferred stock, \$0.001 par value, 15,000,000 shares authorized, 8,957,617 shares issued and outstanding, aggregate liquidation preference of \$44,788	44,788	44,788
Series B convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized, 3,373,333 shares issued and outstanding, aggregate liquidation preference of \$15,180	15,180	15,180
Series C convertible preferred stock, \$0.001 par value, 3,500,000 shares authorized, 3,200,000 shares issued and outstanding, aggregate liquidation preference of \$7,200	7,200	7,200
Common stock, \$0.001 par value, 31,800,000 shares authorized, 770,250 shares issued and outstanding	2,343	2,334
Treasury stock	(629)	(629)
Accumulated deficit	(47,722)	(54,427)
Total shareholders' equity	21,160	14,446
	\$ 35,893	\$ 27,237

See accompanying notes to consolidated financial statements.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Consolidated Statements of Income (in thousands)

	April 30, 2006	May 1, 2005
Revenues:		
Restaurant sales	\$ 49,946	\$ 47,976
Franchise fees and royalties	8,293	7,510
<b>Total revenues</b>	<b>58,239</b>	<b>55,486</b>
Operating expenses:		
Cost of sales	12,162	11,891
Labor costs	15,143	14,698
Other restaurant operating costs	7,033	6,683
Occupancy costs	8,033	7,809
General and administrative expenses	7,739	8,257
Depreciation and amortization	2,563	1,970
Provision for impairment loss	268	136
<b>Total operating expenses</b>	<b>52,941</b>	<b>51,444</b>
<b>Income from operations</b>	<b>5,298</b>	<b>4,042</b>
Other expense (income):		
Interest expense	1	82
Other, net	39	(98)
<b>Total other expenses (income)</b>	<b>40</b>	<b>(16)</b>
<b>Income before income taxes</b>	<b>5,258</b>	<b>4,058</b>
<b>Benefit for income taxes</b>	<b>(1,447)</b>	<b>(6,992)</b>
<b>Net income</b>	<b>\$ 6,705</b>	<b>\$ 11,050</b>

See accompanying notes to consolidated financial statements.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Consolidated Statements of Shareholders' Equity (in thousands)

	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Series C Convertible Preferred Stock	Common Stock	Treasury Stock	Accumulated Deficit	Total
Balance at May 2, 2004,	\$ 44,788	\$ 15,180	\$ 7,200	\$ 2,334	\$ (475)	\$ (65,477)	\$ 3,550
Repurchase of preferred and common stock					(154)		(154)
Net income						11,050	11,050
Balance at May 1, 2005	44,788	15,180	7,200	2,334	(629)	(54,427)	14,446
Common stock options exercised				9			9
Net income						6,705	6,705
Balance at April 30, 2006	\$ 44,788	\$ 15,180	\$ 7,200	\$ 2,343	\$ (629)	\$ (47,722)	\$ 21,160

See accompanying notes to consolidated financial statements.



# The Johnny Rockets Group, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (in thousands)

	April 30, 2006	May 1, 2005
<b>Operating activities</b>		
Net income	\$ 6,705	\$ 11,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,563	1,970
Impairment loss	268	136
Loss (Gain) on sale of property and equipment	64	(139)
Deferred taxes	(1,729)	(7,340)
Net change in operating assets and liabilities:		
Franchise fees receivable, net	(126)	(173)
Inventories	(91)	(12)
Other receivables	(36)	40
Other assets	(344)	589
Accounts payable	741	(333)
Accrued expenses and other liabilities	1,173	1,695
Accrued disposition reserves	(415)	(92)
Deferred franchise fees	(102)	(36)
<b>Net cash provided by operating activities</b>	<b>8,671</b>	<b>7,355</b>
<b>Investing activities</b>		
Purchases of property and equipment	(4,952)	(2,318)
Acquisition of franchise	(500)	-
Proceeds from sale of property and equipment	-	538
<b>Net cash used in investing activities</b>	<b>(5,452)</b>	<b>(1,780)</b>
<b>Financing activities</b>		
Repayment of long-term debt	-	(3,150)
Common stock options exercised	9	-
Repurchase of preferred and common stock	-	(154)
Purchase of partners' shares in limited partnership	(20)	(80)
<b>Net cash used in financing activities</b>	<b>(11)</b>	<b>(3,384)</b>
<b>Net increase (decrease) in cash</b>	<b>3,208</b>	<b>2,191</b>

# The Johnny Rockets Group, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (Continued) (in thousands)

	April 30, 2006	May 1, 2005
Cash, beginning of year	6,872	4,681
Cash, end of year	\$ 10,080	\$ 6,872
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ -	\$ 79
Cash paid for income taxes	\$ 687	\$ 293

*See accompanying notes to consolidated financial statements.*

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands except per share, warrant and employee data)

1. **Organization and Significant Accounting Policies**

***Background and Organization***

The Johnny Rockets Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the "Company" or "JRG") develop, operate and franchise restaurants under the name "Johnny Rockets, The Original Hamburger." The restaurants are casual-themed, 1940s - 1950s style diners that primarily serve hamburgers, malts and American fries. At April 30, 2006 and May 1, 2005, there were 46 and 42 Company-owned restaurants, respectively, and 145 and 131 franchised restaurants, respectively. Company-owned restaurants are located in California, Florida, Illinois, Indiana, Michigan, Nevada, New Jersey, New York, Ohio, Virginia and Washington, D.C. Franchised restaurants are located throughout the United States and in Bahamas, Canada, Dubai, Kuwait, Mexico, Puerto Rico and Qatar.

2. **Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of The Johnny Rockets Group, Inc. and three subsidiaries. The three subsidiaries consist of one limited partnership in which the Company exercises significant control; one wholly owned subsidiary and one majority owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of the consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

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2. **Summary of Significant Accounting Policies (Continued)**

***Cash***

The Company maintains cash balances at financial institutions that are in excess of FDIC insurance coverage limits.

***Restricted Cash***

At April 30, 2006 and May 1, 2005, restricted cash represents amounts associated with a letter of credit securing a lease on the Company's closed Texas restaurant.

***Inventories***

Inventories, consisting principally of food, beverages and smallwares are stated at the lower of cost (first-in, first-out method) or market. Smallwares, including plates, glassware and silverware, are capitalized when a restaurant is opened and are not depreciated; subsequent replacements of smallwares are expensed. Periodically, the Company evaluates the reasonableness of the smallwares balance to determine that the carrying value approximates replacement cost.

***Property and Equipment***

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture, fixtures, and equipment	5 to 7 years
Leasehold improvements	Lesser of the base lease term or estimated useful life

Major renewals and betterments are capitalized while maintenance costs and repairs are expensed in the year incurred.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

2. **Summary of Significant Accounting Policies (Continued)**

### *Goodwill*

Goodwill represents the excess of purchase price over the fair value of net assets acquired from the acquisitions of Johnny Rockets International, Inc. ("JRI"), certain formerly franchised restaurants, and the repurchase of minority interests from a limited partnership. Goodwill is deemed to have an indefinite life and is therefore not amortized, but is rather subject to annual impairment tests.

The carrying value of goodwill is reviewed at least annually and when facts and circumstances suggest that it may be impaired. Such review entails comparing the carrying value goodwill to the fair value. If the aggregate carrying value of goodwill exceeds the fair value, the goodwill is impaired to the extent of the difference between the fair value and the aggregate carrying value. The Company performed the required impairment tests of goodwill as of April 30, 2006 and May 1, 2005. As a result of such tests, management believes that no impairment exists relating to goodwill as of April 30, 2006 and May 1, 2005.

During the year ended April 30, 2006, the Company recorded goodwill of \$500 relating to acquisition of a franchise restaurant.

### *Preopening Costs*

Preopening costs, which consist of payroll, supplies and other direct expenses incurred in connection with opening new restaurants, are expensed as incurred.

### *Fiscal Year-End*

The Company's fiscal year is the 52- or 53- week period ending the last Sunday in April or the first Sunday in May. The Company's 2006 and 2005 fiscal years ended on April 30, 2006 and May 1, 2005, respectively. Fiscal 2006 and fiscal 2005 included 52 weeks. Consolidated affiliated partnerships utilize these same accounting periods.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued) (Dollar amounts in thousands except per share, warrant and employee data)

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2. **Summary of  
Significant  
Accounting Policies  
(Continued)**

*Revenue Recognition*

The Company recognizes revenue on food and beverage sales as services are rendered.

In connection with its franchising activities, the Company receives franchise fees, area development fees and continuing royalties. The Company recognizes franchise fee and area development fee revenue when it has completed performance of substantially all obligations specified in the related underlying agreements, in accordance with SFAS No. 45, *Accounting For Franchise Fee Revenue*. Payments received from franchisees prior to the completion of these obligations are reflected as deferred franchise fees in the accompanying balance sheets. Royalties are generally contractually earned at amounts equal to 5% of franchised restaurant sales and are recognized as such sales occur.

*Long-Lived Assets*

The Company reviews its long-lived assets, including any allocated intangible assets related to each restaurant to be held and used, annually for impairment. The Company uses projected operating results in its impairment evaluation. Based on the best information available, an impaired restaurant is written down to its estimated fair value, which becomes its new cost basis. Estimated fair value is generally measured by discounting the estimated future cash flows. In addition, when a closure decision is made, the restaurant is reviewed for impairment based on the resulting shortened useful life. The Company recorded a charge for impairment of \$268 for five restaurants and \$136 for seven restaurants in fiscal 2006 and 2005, respectively, related to equipment and leasehold improvements.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

### 2. Summary of Significant Accounting Policies (Continued)

#### *Income Taxes*

The Company provided for income taxes under the liability method. Accordingly, deferred income tax assets and liabilities are computed for differences between the consolidated financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. A valuation allowance is recorded when it is more likely than not that deferred tax assets will not be realized.

#### *Stock-Based Compensation*

The Company measures compensation expense for its employees' stock-based compensation plans using the intrinsic value method and provides pro forma disclosures of net income as if a fair value method had been applied in measuring compensation expense in accordance with the requirements of SFAS Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123), as amended. Accordingly, compensation cost for stock awards is measured as the excess, if any, of the fair value for financial reporting purposes of the Company's common stock at the measurement date (generally the date of grant) over the amount an employee must pay to acquire the stock.

The fair value of each stock option granted during fiscal 2006 and 2005 to employees and officers is estimated using the Black-Scholes option-pricing model on the date of grant using the following assumptions: (i) no dividend yield, (ii) volatility of zero, (iii) weighted-average risk-free interest rates ranging from 3.85% to 4.01% in 2006 and 3.91% to 4.44% in 2005, and (iv) expected life of seven years. The options granted during fiscal 2006 and 2005 had a weighted-average fair value of \$0.71 and \$0.57 per share, respectively.

The effects of applying the fair value method to the Company's option grants would decrease the Company's net income by approximately \$25 and \$67, in fiscal 2006 and 2005, respectively.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued) (Dollar amounts in thousands except per share, warrant and employee data)

2. **Summary of  
Significant  
Accounting Policies  
(Continued)**

*Performance Unit Plan*

The Company measures compensation expense for its performance unit plan using the fair value method in accordance with Statement No. 123 and FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. The Company records compensation cost for the changes in the fair value of vested performance units based upon the underlying fair value of the Company, as determined by an independent valuation firm. The fair value of the performance unit plan is included in other long-term liabilities.

*Advertising*

The Company expenses advertising as incurred. Advertising costs of \$758 and \$800 are included in the statements of income for the fiscal 2006 and 2005, respectively.

*Recent Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment ("Statement No. 123R"). Statement No. 123R will require the Company to expense share-based payments, including employee stock options, based on their fair value. The Company is required to adopt the provisions of Statement No. 123R effective as of the beginning of its fiscal year 2007. Statement No. 123R provides alternative methods of adoption which include prospective application and a modified retroactive application. The Company is currently evaluating the financial impact, including the available alternatives of adoption, of Statement No. 123R.



# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

### 2. Summary of Significant Accounting Policies (Continued)

#### *Recent Accounting Pronouncements -Continued*

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*—a replacement of APB No. 20 and FAS No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS No. 154. SFAS No. 154 is required to be adopted in fiscal years beginning after December 15, 2005. The Company believes that its adoption will not have a material impact on their financial position, results of operations or cash flows.

### 3. Accrued Expenses

The following is a summary of the components of accrued expenses:

	April 30, 2006	May 1, 2005
Accrued lease obligations	\$ 297	\$ 309
Accrued payroll and related costs	1,864	1,768
Other	1,711	1,516
Total accrued expenses	\$ 3,872	\$ 3,593

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

4. Accrued Disposition Reserves	April 30, 2006	May 1, 2005
Disposition reserves at beginning of year	\$ 769	\$ 861
Reserved utilized	(415)	(92)
Disposition reserves at end of year	\$ 354	\$ 769

During fiscal 2006 and 2005, the Company is utilizing the reserves originally established during fiscal 2003, 2002 and 2001. The amounts remaining in the reserve relate to lease costs through 2011 on a closed store.

### 5. Long-Term Debt

On October 31, 2003 and amended through December 9, 2005, the Company entered into a credit agreement (the "Credit Agreement") with Bank of the West ("BOW") that allows the Company to borrow up to \$7,000.

The Company's obligations to BOW under the Credit Agreement are secured by all of the Company's assets, including the stock of each of its subsidiaries (each of which has guaranteed the Company's obligations under the agreement), as well as all intangible assets it owns, including the intellectual property and trademark assets that the Company and its subsidiaries own.

The Credit Agreement provides the Company with a deferred expansion line of \$7,000. Under the terms of the third amendment to the Credit Agreement, amounts borrowed under this line are set to convert to a term loan with monthly principal amortization payments beginning October 31, 2006, and are required to be repaid in full by October 31, 2010. The Credit Agreement requires that the Company pay interest on any borrowings outstanding under this line on a monthly basis at an interest rate computed in the same manner as described above for this term loan. As of April 30, 2006, no amounts were borrowed under the deferred expansion line.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued) (Dollar amounts in thousands except per share, warrant and employee data)

### 5. Long-Term Debt (Continued)

The Company is subject to a number of restrictions under the Credit Agreement, the second amendment and the third amendment to the Credit Agreement, including limitations on the Company's ability to sell assets, incur additional indebtedness, incur new liens upon the Company's assets, and pay dividends on or repurchase its common stock. The Company must also maintain compliance with agreed-upon financial covenants that limit the amount of indebtedness that it may have outstanding in relation to its tangible net worth, require the Company to maintain a specified minimum dollar value level of EBITDA for the trailing four fiscal quarters and require the Company to maintain a specified minimum level of profitability. At April 30, 2006, the Company was in compliance with its financial covenants.

### 6. Preferred Stock

Each share of Series A and Series B preferred stock is convertible, at the holder's option, into approximately 1.1 shares of common stock and contains antidilution provisions and voting privileges. Upon liquidation, and in preference to the rights of common shareholders, Series A and Series B preferred shareholders are entitled to receive \$5.00 and \$4.50 per share, respectively, plus any declared but unpaid dividends. The rights of the Series B preferred shareholders are senior to the rights of the Series A preferred shareholders.

Each share of Series C preferred stock is convertible, at the holder's option, into one share of common stock and contains antidilution provisions and voting privileges, as defined. Upon liquidation and in preference to rights of common shareholders and Series A and B preferred shareholders, Series C preferred shareholders may be entitled to receive an additional amount based on the fair market value of the stock at that date. The Series C preferred stock was issued at \$2.25 per share.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

7. **Treasury Stock** In fiscal 2005, the Company had the following treasury stock transactions:

	Number of Shares	Amount
Treasury stock as of May 2, 2004	149,996	\$ (475)
Repurchase of Series A convertible preferred stock	108,942	(131)
Repurchase of Series B convertible preferred stock	6,667	(18)
Repurchase of common stock	5,000	(5)
Treasury stock as of May 1, 2005	270,605	\$ (629)

8. **Warrants** During fiscal 2006, all outstanding warrants expired.

9. **Stock Options** The Company's 1995 Stock Option/Stock Issuance Plan (the "Plan") provides incentives to employees and directors of the Company who provide significant services to the Company through the issuance of incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"). Under the Plan 1,800,000 options are available. Options granted under the Plan generally have a 10-year life, vest over a period of three to four years and have exercise prices of up to \$5.00 per share. All options granted have exercise prices equal to or in excess of the estimated fair market value of the Company's common stock at the date of grant. At April 30, 2006 and May 1, 2005, the weighted-average remaining contractual life of the options outstanding was approximately 77 and 82 months, respectively. At April 30, 2006 and May 1, 2005, options to purchase 162,707 and 367,675 shares of the Company's common stock were vested and exercisable, respectively; the weighted-average exercise price of these options was \$2.43 and \$2.36, respectively.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

9. Stock Options (Continued)	Number of Shares	Weighted Average Exercise Price
Outstanding as of May 2, 2004	602,495	\$ 2.32
Granted	60,400	2.25
Forfeited	(66,194)	2.25
Outstanding as of May 1, 2005	596,701	2.32
Granted	79,150	1.12
Exercised	(4,500)	2.00
Forfeited	(391,926)	2.27
Outstanding as of April 30, 2006	279,425	\$ 2.04

### 10. Restricted Stock

Effective September 13, 2005, the Board of Directors approved the 2005 Stock Incentive Plan ("Stock Plan") that provides the Company ability to grant restricted common stock. Under the Stock Plan up to 1,800,000 shares of common stock are available for issuance. In connection therewith, 491,800 restricted common stock grants were made to certain employees of the Company. The restricted common stock vests annually over a period of 4 years. Under the terms of the Stock Plan, the vested shares of stock are subject to the Company's right of repurchase upon termination of service and right of first refusal so long as the Company's stock is not publicly traded.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

### 11. Income Taxes

Significant components of the provision/(benefit) for income taxes for the years ended April 30, 2006 and May 1, 2005 are as follows:

	April 30, 2006	May 1, 2005
<b>Current:</b>		
Federal	\$ (10)	\$ 177
State	291	171
<b>Total current</b>	<b>281</b>	<b>348</b>
<b>Deferred:</b>		
Federal	(1,695)	(6,130)
State	(33)	(1,210)
<b>Total deferred</b>	<b>(1,728)</b>	<b>(7,340)</b>
<b>Income tax benefit</b>	<b>\$ (1,447)</b>	<b>\$ (6,992)</b>

The effective tax rate differs from the statutory tax rate due principally to the change in the valuation allowance, federal alternative minimum tax and state income taxes.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

### 11. Income Taxes (Continued)

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred income tax assets and liabilities are as follows:

	April 30, 2006	May 1, 2005
Deferred income tax assets:		
Operating loss carry forwards	\$ 3,589	\$ 4,697
Tax credit carry forwards	2,276	1,993
Other accrued expenses	1,862	2,084
Deferred rent and lease obligations	1,249	1,138
Impairment losses currently not deductible for income tax	3,186	2,749
<b>Total deferred income tax assets</b>	<b>12,162</b>	<b>12,661</b>
Deferred income liabilities:		
Basis differences in fixed assets	(1,676)	(1,360)
Basis differences in intangible assets	(246)	(208)
Partnership losses currently deductible for income tax purposes	-	(516)
<b>Total deferred income tax liability</b>	<b>(1,922)</b>	<b>(2,084)</b>
<b>Net deferred tax assets</b>	<b>10,240</b>	<b>10,577</b>
<b>Valuation allowance</b>	<b>(1,171)</b>	<b>(3,237)</b>
<b>Net deferred taxes</b>	<b>\$ 9,069</b>	<b>\$ 7,340</b>

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued) (Dollar amounts in thousands except per share, warrant and employee data)

### 11. Income Taxes (Continued)

At April 30, 2006, the Company had cumulative federal, state and Alternative Minimum Tax (AMT) net operating loss carryforwards totaling \$7,100, \$14,600 and \$13,200 respectively, which expire at various dates from 2006 through 2024.

Due to the "change of ownership" provisions of the Tax Reform Act of 1986, utilization of the Company's net operating loss carry forwards may be subject to an annual limitation against taxable income in future periods. As a result of the annual limitation, a portion of these carry forwards may expire before ultimately becoming available to reduce future income tax liabilities.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future income during the periods in which those temporary differences become deductible. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will not realize \$1,171 of the benefits from the deductible differences.

### 12. Commitments and Contingencies

#### *Lease Commitments*

The Company leases its restaurant facilities, office space and certain equipment under noncancelable operating leases expiring at various dates through 2016. Certain leases provide for monthly rent expense equal to the greater of a fixed payment or a percentage of gross sales. Certain leases are subject to annual adjustments for inflation and contain renewal options. The Company's rent expense for the years ended April 30, 2006 and May 1, 2005 was approximately \$4,900 and \$4,963, respectively (including contingent rental amounts of approximately \$333 and \$315, respectively).



# The Johnny Rockets Group, Inc. and Subsidiaries

## - Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

12. **Commitments and Contingencies** (Continued) Future minimum lease payments under noncancelable operating leases at April 30, 2006 are as follows:

<i>Fiscal Year ending</i>	<i>Amount</i>
2007	\$ 6,124
2008	5,455
2009	3,926
2010	3,191
2011	2,634
Thereafter	7,576
	<u>\$ 28,906</u>

### Limited Partner Put Options

Under the terms of the limited partnership agreement in which one of the Company's subsidiaries is the general partner, the limited partners may, at their option, require the general partner to purchase the limited partners' partnership units at any time after October 19, 1999. The minimum purchase price is \$40 per unit, but may be higher if the partnership's restaurants achieve specified operating results. During fiscal 2006, the Company purchased all of the limited partnership units subject to the purchase option and dissolved the limited partnership.

During fiscal 2006, one limited partner holding one half of a unit exercised put options for an aggregate purchase price of \$20. In accordance with the limited partnership agreement, the Company determined the purchase price to be \$40 per unit.

During fiscal 2005, two limited partners holding two units exercised their respective put option for an aggregate purchase price of \$80. In accordance with the limited partnership agreement, the Company determined the purchase price to be \$40 per unit.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Dollar amounts in thousands except per share, warrant and employee data)

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### 12. Commitments and Contingencies (Continued)

#### Performance Unit Plan

Effective April 29, 2002 and as amended November 2004, the Company entered into a Performance Unit Plan whereby 200 performance units, representing approximately 5% of the equity value of the Company, were granted to participants. Performance units vest over a period of two to four years from the grant date. Upon a change of control or an initial public offering, the holders of the performance units are entitled to receive a cash payment, up to a maximum of 0.025% of the Company's equity value per unit. The cash payment is calculated pursuant to a defined formula, which is based in part upon the Company achieving certain financial performance targets. At April 30, 2006, the performance units were 100% vested and the Company had met all financial performance targets necessary for a full payout of 0.025% of the Company's equity value per unit. Based upon an independent valuation of the Company, it was determined that the Company's equity value as of April 30, 2006 was \$67,000. Accordingly, the Company recorded compensation expense of \$1,100 and \$2,250 in fiscal 2006 and fiscal 2005, respectively, to reflect the value of the vested performance units, which is included in general and administrative expenses on the Company's consolidated statement of income and included in other long term liabilities on the balance sheet.

#### Legal

The Company and its subsidiaries are parties to various legal actions and proceedings incident to normal business activity. Management believes, after consultation with outside legal counsel, that any liability in the event of final adverse determination of any of these matters would not be material to the Company's consolidated financial position, liquidity or results of operations.

# The Johnny Rockets Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued) (Dollar amounts in thousands except per share, warrant and employee data)

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### 13. 401(k) Plan

During fiscal 2006 and 2005, employees were eligible to receive matching contributions of up to \$400 and \$350 per employee per calendar year 2006 and 2005, respectively. In order to be eligible to participate in the 401(k) plan, employees must have completed one year of service with the Company, have worked 1,000 hours in a 12-month period and be at least 21 years of age. The Company recorded \$31 and \$26 in expense associated with the matching contributions under the plan during fiscal 2006 and 2005, respectively.

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**CONSOLIDATED FINANCIAL STATEMENTS**

**The Johnny Rockets Group, Inc. and Subsidiaries**

**Years ended May 1, 2005 and May 2, 2004  
With Report of Independent Auditors**

**The Johnny Rockets Group, Inc. and Subsidiaries**

**Consolidated Financial Statements**

**Years ended May 1, 2005 and May 2, 2004**

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