

BOWLIN TRAVEL CENTERS, INC.

Financial Statements

January 31, 2009 and 2008



Accounting & Consulting Group, LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Bowlin Travel Centers, Inc.

We have audited the accompanying balance sheets of Bowlin Travel Centers, Inc. as of January 31, 2009 and 2008, and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2009. Bowlin Travel Center, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bowlin Travel Centers, Inc. as of January 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Certified Public Accountants
Albuquerque, New Mexico
April 3, 2009

Certified Public Accountants

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BOWLIN TRAVEL CENTERS, INC.
Balance Sheets
January 31, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 1,909,708	1,899,021
Marketable securities	2,000,000	2,300,000
Accounts receivable	53,346	94,183
Inventories	3,176,009	3,410,625
Income taxes	334,926	244,994
Interest receivable	19,779	29,453
Prepaid expenses	198,946	208,119
Deferred income taxes	47,500	47,100
Notes receivable, current maturities	54,584	59,916
Total current assets	<u>7,794,798</u>	<u>8,293,411</u>
Property and equipment, net	9,774,706	9,854,502
Assets held for sale	1,122,996	1,123,300
Intangible assets, net of \$117,132 and \$110,916 accumulated amortization	50,623	46,839
Investment in real estate	419,389	418,663
Notes receivable, less current portion	117,296	171,995
Total assets	<u>\$ 19,279,808</u>	<u>19,908,710</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 135,869	128,386
Accounts payable	648,731	769,057
Accrued salaries and benefits	421,520	386,277
Accrued liabilities	204,544	232,985
Deferred revenue, current	35,669	23,470
Total current liabilities	<u>1,446,333</u>	<u>1,540,175</u>
Deferred income taxes	731,300	686,100
Long-term debt, less current maturities	<u>4,446,612</u>	<u>4,577,095</u>
Total liabilities	<u>6,624,245</u>	<u>6,803,370</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, none issued or outstanding at January 31, 2009 and 2008	—	—
Common stock, \$.001 par value; 10,000,000 shares authorized, 4,583,348 issued and outstanding at January 31, 2009 and 2008	4,583	4,583
Less: Treasury stock (1,000 shares at par)	<u>1</u>	<u>—</u>
Common stock outstanding	4,582	4,583
Additional paid-in capital, net	9,773,593	9,775,192
Retained earnings	2,877,388	3,325,565
Total stockholders' equity	<u>12,655,563</u>	<u>13,105,340</u>
Total liabilities and stockholders' equity	<u>\$ 19,279,808</u>	<u>19,908,710</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Income

	Years ended January 31,		
	2009	2008	2007
Gross sales	\$ 24,916,394	28,651,097	27,973,253
Less discounts on sales	(219,166)	(468,180)	(222,678)
Net sales	24,697,228	28,182,917	27,750,575
Cost of goods sold	17,346,690	19,670,382	18,909,999
Gross profit	7,350,538	8,512,535	8,840,576
General and administrative expense	(7,132,232)	(7,489,912)	(7,109,860)
Depreciation and amortization	(850,009)	(800,723)	(758,452)
Operating (loss) income	(631,703)	221,900	972,264
Other non-operating (expense) income:			
Interest income	128,750	189,212	94,322
Loss (gain) on sale of property and equipment	(24,240)	26,191	113,456
Rental income	155,772	159,358	175,586
Miscellaneous	30	2,125	—
Interest expense	(275,896)	(374,078)	(335,517)
Total other non-operating (expense) income	(15,584)	2,808	47,847
(Loss) income from continuing operations before income tax benefit (expense)	(647,287)	224,708	1,020,111
Income tax benefit (expense)	235,610	(102,626)	(413,232)
(Loss) income from continuing operations	(411,677)	122,082	606,879
Discontinued operations			
Loss from operations of discontinued component	(57,390)	(356,837)	(342,723)
Income tax benefit	20,890	143,395	138,832
	(36,500)	(213,442)	(203,891)
Income from disposal of discontinued operations, net of income tax expense	—	549,071	—
Unusual item	—	—	201,200
Net (loss) income	\$ (448,177)	457,711	604,188
(Loss) earnings per share:			
Basic and diluted, continuing operations	\$ (0.09)	0.03	0.17
Basic and diluted, discontinued operations	\$ (0.01)	(0.05)	(0.04)
Basic and diluted, disposals of discontinued operations	\$ —	0.12	—
Basic and diluted, net (loss) income	\$ (0.10)	0.10	0.13
Weighted average common shares outstanding	4,582,348	4,583,348	4,583,348

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.

Statements of Stockholders' Equity

For the Years Ended January 31, 2009, 2008 and 2007

	<u>Number of shares</u>	<u>Common stock, at par</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 31, 2007	4,583,348	\$ 4,583	\$ 9,775,192	\$ 2,867,854	\$ 12,647,629
Net income	<u>—</u>	<u>—</u>	<u>—</u>	<u>457,711</u>	<u>457,711</u>
Balance at January 31, 2008	4,583,348	4,583	9,775,192	3,325,565	13,105,340
Net loss	<u>—</u>	<u>—</u>	<u>—</u>	<u>(448,177)</u>	<u>(448,177)</u>
Treasury stock	(1,000)	(1)	—	—	(1)
Additional paid-in capital, treasury	<u>—</u>	<u>—</u>	<u>(1,599)</u>	<u>—</u>	<u>(1,599)</u>
Balance at January 31, 2009	<u>4,582,348</u>	<u>\$ 4,582</u>	<u>\$ 9,773,593</u>	<u>\$ 2,877,388</u>	<u>\$ 12,655,563</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statement of Cash Flows

	Years ended January 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net (loss) income	\$ (448,177)	457,711	604,188
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	865,630	873,160	887,597
Amortization of loan fee	3,476	14,465	25,504
Loss (gain) on sale of property and equipment	24,240	(992,799)	(113,456)
Provision for deferred income taxes	44,800	(120,300)	(52,900)
Retirement of debt issuance costs	—	131,602	—
Changes in operating assets and liabilities:			
Accounts receivable	40,837	(51,080)	(1,639)
Inventories	234,616	244,258	(48,846)
Prepaid expenses and other	(80,759)	(51,239)	(126,236)
Accounts payable and accrued liabilities	(113,524)	(241,136)	86,917
Deferred income	12,199	(19,356)	(52,728)
Net cash provided by operating activities	583,338	245,286	1,208,401
Cash flows from investing activities:			
Proceeds from sale of assets	3,300	2,448,483	58,317
Purchases of property and equipment	(852,656)	(1,086,909)	(709,632)
Accrued interest receivable	9,674	(13,413)	(3,052)
Investment in real estate	(726)	3,259	(651)
Purchase of marketable securities	(2,000,000)	(1,500,000)	—
Franchise fee payment	(10,000)	—	—
Proceeds from sale of marketable securities	2,300,000	(347,000)	268,000
Treasury stock	(1)	—	—
Additional paid-in capital, treasury stock	(1,599)	—	—
Increase in notes receivable	—	—	(53,000)
Payment received from notes receivable	102,357	97,751	38,500
Net cash used in investing activities	(449,651)	(397,829)	(401,518)
Cash flows from financing activities:			
Payments on long-term debt	(123,000)	(221,677)	(387,051)
Payments for debt issuance costs	—	(34,755)	(6,250)
Net cash used in financing activities	(123,000)	(256,432)	(393,301)
Net increase (decrease) in cash and cash equivalents	10,687	(408,975)	413,582
Cash and cash equivalents at beginning of year	1,899,021	2,307,996	1,894,414
Cash and cash equivalents at end of year	\$ 1,909,708	1,899,021	2,307,996

(Continued)

BOWLIN TRAVEL CENTERS, INC.
Statement of Cash Flows

	Years ended January 31,		
	2009	2008	2007
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 284,966	490,481	421,950
Cash paid for income taxes	\$ —	480,000	450,000
Noncash investing and financing activities:			
Real estate sold in exchange for notes receivable	\$ —	—	162,351
Like-kind exchange of property	\$ 116,662	—	—

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

1) Summary of Significant Accounting Policies

(a) Description of Business

Bowlin Travel Centers, Inc. (BTC or the Company) is located in Albuquerque, New Mexico. The Company's tradition of serving the public dates back to 1912, when the founder, Claude M. Bowlin, started trading goods and services with Native Americans in New Mexico. The Company's principal business activities include the operation of ten full-service travel centers and five restaurants strategically located along well-traveled interstate highways in New Mexico and Arizona where there are generally few gas stations, convenience stores or restaurants. The Company's travel centers offer brand-name food and gasoline, and a unique variety of Southwestern merchandise to the traveling public in the Southwestern United States, primarily New Mexico. The Company operates four full-service restaurants under the Dairy Queen/Brazier or Dairy Queen trade names; one of the restaurants operates as a DQ Treat restaurant and has a limited menu. All of the Company's ten travel centers sell convenience store food such as chips, nuts, cookies and prepackaged sandwiches along with a variety of bottled and canned drinks.

The Company has a wholly owned subsidiary BMI, Inc., which is a dormant shell corporation with no assets. BMI, Inc. dissolved in fiscal year ending 2008.

(b) Cash and Cash Equivalents

The Company considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with a local financial institution. All funds at year-end were covered by Federal Deposit Insurance Corporation insurance.

(c) Marketable Securities

Marketable securities consist of certificates of deposit with maturities greater than three months. All certificates of deposit have one year maturity dates and are \$100,000 and insured by Federal Deposit Insurance Corporation.

(d) Inventories

Inventories consist primarily of merchandise and gasoline for resale and are stated at the lower of cost or market value, with cost being determined using the first-in, first-out (FIFO) method. The Company is subject to the uniform capitalization rules and capitalized \$113,929 and \$107,096 of direct and indirect costs incurred during pre-sale periods to inventory at January 31, 2009 and January 31, 2008 respectively.

(e) Property and Equipment

Property and equipment are carried at cost. Maintenance and repairs, including the replacement of minor items, are expensed as incurred, and major additions to property and equipment are capitalized. Depreciation is provided by the Company using primarily straight-line.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
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(f) *Intangible Assets*

Debt issuance costs are deferred and amortized over the terms of the respective borrowings on a straight-line basis which is not materially different from the effective interest method. Franchise fees are amortized on a straight-line basis over the shorter of the life of the related franchise agreements or the periods estimated to be benefited, ranging from fifteen to twenty-five years.

(g) *Sales and Cost Recognition*

Sales of merchandise are recognized at the time of sale and the associated costs of the merchandise are included in cost of sales.

(h) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) *Excise and Gross Receipt Taxes*

The Company collects and remits various federal and state excise taxes on petroleum products. Gasoline sales and cost of goods sold included excise taxes of approximately \$1,079,056, \$1,458,474 and \$1,693,614 for fiscal years ended January 31, 2009, 2008 and 2007, respectively.

The Company also collects and remits gross receipt s taxes on sales. Gross receipts taxes of approximately \$604,554, \$706,651 and \$746,303 were collected and remitted for fiscal years ended January 31, 2009, 2008 and 2007, respectively. Sales and cost of sales are presented net of gross receipts taxes.

(j) *Impairment of Long-lived Assets and Long-lived Assets to Be Disposed Of*

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of 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 by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

(k) *Financial Instruments*

The Company's financial instruments are cash and cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable, accrued liabilities and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued liabilities and long-term debt approximate fair value.

(l) *Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. The Company has identified the estimated useful lives of its fixed assets and the valuation of deferred taxes as its significant estimates. Actual results could differ from those estimates.

(m) *Earnings Per Share*

Earnings per share of common stock, both basic and diluted, are computed by dividing net (loss) income by the weighted average common shares outstanding, assuming the shares distributed on January 30, 2001 were outstanding for all periods presented. Diluted earnings per share is calculated in the same manner as basic earnings per share as there were no potential dilutive securities outstanding for all periods presented.

On September 29, 2008, the Company issued a press release announcing plans to begin a stock repurchase program whereby up to 1,000,000 shares of its common stock outstanding may be repurchased in the open market or in privately negotiated purchases from time to time, depending on market conditions and other factors. The purchases will be funded from available working capital and will be made in accordance with applicable securities laws and regulations.

The Company acquired 1,000 of its outstanding common shares for fiscal year ended January 31, 2009. The Company repurchased 1,000 shares of its outstanding common stock for \$1.60 per share, a total repurchase of \$1,600. The common stock issued and outstanding was reduced by 1,000 shares or \$1.00, and additional paid in capital was reduced by \$1,599. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet. There was no acquisition of the Company's outstanding common shares for fiscal years ended January 31, 2008 and 2007, respectively.

There was no issuance of the Company's outstanding common shares for fiscal years ended January 31, 2009, 2008 and 2007, respectively.

(n) *Reclassifications*

Certain 2008 and 2007 amounts have been reclassified to conform to 2009 presentation. Such reclassifications had no effect on net income. Property and

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

equipment held for sale is reclassified as a component separate from continuing operations in the income statement in accordance with SFAS No. 144 – Accounting for Impairment or Disposal of Long-lived Assets (as amended), paragraph 43. Management’s intent is to sell one of the Company’s retail locations in the ensuing fiscal year.

Marketable securities consist of certificates of deposit with maturities greater than three months and the sum of these certificates of deposit were reclassified from cash to marketable securities.

(o) *Accounts Receivable*

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Management believes that all accounts receivable are fully collectable. Therefore, no allowance for doubtful accounts is deemed to be required.

(p) *Notes Receivable*

Notes receivable are accounted for using the installment method of accounting as well as original note value. In accordance with FAS 66, “Accounting for Sales of Real Estate”, gains were deferred on loans not meeting the minimum initial 20% investment by the buyer expressed as a percentage of the sales value.

Management believes that all note accounts are fully collectable. Therefore, no allowance for doubtful accounts is deemed to be required.

(q) *Deferred Revenue*

The current portion of deferred revenue consists of advertising revenue received in advance for billboards that the Company rents. This revenue is recognized in income as services are provided over the term of the contract.

(r) *Advertising Costs*

Advertising costs are expensed as incurred. Advertising expense was approximately \$57,815, \$71,488 and \$38,977 for fiscal years ended January 31, 2009, 2008 and 2007 respectively.

(s) *Freight Costs*

General and administrative expense includes inbound freight costs incurred to acquire inventory for sale. Inbound freight costs are expensed as incurred. Freight

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

expense was approximately \$118,447, \$185,194 and \$210,085 for fiscal years ended January 31, 2009, 2008 and 2007, respectively.

(t) Concentration in Suppliers

The Company is an authorized ExxonMobil distributor. The Company sells ExxonMobil gasoline at five travel centers. The ExxonMobil distribution agreement allows the Company to streamline its gasoline supply arrangements and take advantage of volume-driven pricing by consolidating purchases from these suppliers. The Company's agreement with ExxonMobil does not prohibit it from entering into similar arrangements with other petroleum companies. The terms of the distribution agreement require the Company to purchase certain monthly minimum quantities of gasoline during the term of the agreement, which includes gasoline purchased for sale at its travel centers. The amount of required ExxonMobil gasoline purchases is a minimum of three million gallons per year. For ExxonMobil, the maximum monthly volume for the current month is the greater of actual volume in the prior month or the actual volume in the current month of the prior year. The Company determines the amount of gasoline it will purchase under the agreements based on what it believes its needs will be for gasoline, including seasonal demands. These determinations are based on historical sales and internal forecasts.

One of the Company's Arizona locations is Mobil and two are Shell as a result of the Company entering into a retail supply agreement with Arizona Fuel Distributors, L.L.C. during fiscal year ended 2008. The Company negotiated and entered into an agreement to purchase gasoline for its three Arizona locations through Arizona Fuel Distributors, L.L.C., paying a distributor's markup price of \$0.015 cents per gallon purchased. There are no minimum or maximum gallon purchase requirements for the Company under the retail supply agreement with Arizona Fuel Distributors, L.L.C

(2) Notes Receivable

Notes receivable as of January 31, 2009 and 2008 consist of the following:

	2009	2008
\$100,000 8% note of which \$85,124 is deferred, due \$667 interest only monthly, \$4,000 principal due the first year and \$24,000 annually for the remaining four years (a)	\$ 6,841	10,412
\$80,000 8% note of which \$21,886 is deferred, due \$1,622 monthly (including interest) through 2010 (a)	23,021	34,802
\$75,000 8% note of which \$31,378 is deferred, due \$4,587 quarterly (including interest) through 2010 (a)	766	10,865
\$53,000 8.5% note, due \$680 monthly (including interest) through 2011 (b)	43,232	47,518
\$108,500 9% note, of which \$24,409 is deferred, due		

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BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

	2009	2008
\$6,797 quarterly (including interest) through 2011 (a)	50,694	66,424
\$67,500 9% note, of which \$15,120 is deferred, due		
\$3,398 quarterly (including interest) through 2001 (a)	23,663	30,945
\$67,500 9% note, of which \$15,120 is deferred, due		
\$3,398 quarterly (including interest) through 2001 (a)	23,663	30,945
	171,880	231,911
Less current portion	(54,584)	(59,916)
	\$ 117,296	171,995

- (a) Collateralized by the property sold. In the event of default, the property reverts back to the Company.
- (b) No collateral.

The Company uses the accrual method to recognize interest income.

On September 1, 2005, the Company sold vacant land located in Alamogordo, New Mexico to Lost River Estates, LLC for \$20,000 cash and a note receivable of \$100,000. The note receivable has a stated rate of interest of 8%. Interest is payable monthly with principal payable in annual installments of \$4,000 for the first year and \$24,000 for the following four years. The property sold had a carrying value of \$9,020 and the costs incurred to sell the land were \$8,831. The gain on the sale of the land was \$102,149 of which \$17,025 was recognized initially and \$85,124 was deferred. In accordance with FAS 66, "Accounting for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (FAS 66, "Accounting for Sales of Real Estate", paragraph 54). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as a reduction to the note receivable in the accompanying balance sheet.

On October 12, 2005, the Company sold vacant land located in Benson, Arizona to D. Fenn Enterprises, Inc. for \$10,000 cash and a note receivable of \$80,000. The note receivable has a stated rate of interest of 8% and is payable in monthly installments of \$1,622 for five years. The property sold had a carrying value of \$64,167 and the costs incurred to sell the land were \$1,211. The gain on the sale of the land was \$24,622 of which \$2,736 was recognized initially and \$21,886 was deferred. In accordance with FAS 66, "Accounting for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (FAS 66, "Accounting for Sales of Real Estate", paragraph 54). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as a reduction to the note receivable in the accompanying balance sheet.

On September 20, 2005, the Company sold vacant land located in Luna County, New Mexico to Lazy L, LLC for \$10,000 cash and a note receivable of \$75,000. The note receivable has a stated rate of interest of 8% and is payable in quarterly installments of

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

\$4,587 for five years. The property sold had a carrying value of \$47,675 and the costs incurred to sell the land were \$1,764. The gain on the sale of the land was \$35,561 of which \$4,184 was recognized initially and \$31,377 was deferred. In accordance with FAS 66, "Account for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (FAS 66, "Accounting for Sales of Real Estate", paragraph 54). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as a reduction to the note receivable in the accompanying balance sheet.

On August 15, 2006, the Company entered into promissory note with C. C. Bess. The promissory note has a stated rate of interest of 9.0% and is payable in monthly installments of \$680 for five years. There is no collateral.

On August 15, 2006, the Company sold vacant land located south of Las Cruces, New Mexico to Larjon, LLC for \$26,500 cash and a note receivable of \$108,500. The note receivable has a stated rate of interest of 9.0% and is payable in quarterly installments of \$6,797 for five years. The property sold had a carrying value of \$104,000 and the costs incurred to sell the land were \$630. The gain on the sale of the land was \$30,370 of which \$5,961 was recognized initially and \$24,409 was deferred. In accordance with FAS 66, "Accounting for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (FAS 66, "Accounting for Sales of Real Estate", paragraph 54). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as a reduction to the note receivable in the accompanying balance sheet.

On August 15, 2006, the Company sold vacant land located south of Las Cruces, New Mexico to Teak, LLC for \$26,500 cash and two notes receivable of \$54,250 each. Both notes receivable have a stated rate of interest of 9.0% and both are payable in quarterly installments of \$3,398 for five years. The property sold had a carrying value of \$96,530 and the costs incurred to sell the land were \$844. The gain on the sale of the land was \$37,626 of which \$7,386 was recognized initially and \$30,240 was deferred. In accordance with FAS 66, "Accounting for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (FAS 66, "Accounting for Sales of Real Estate", paragraph 54). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as a reduction to the note receivable in the accompanying balance sheet.

Management believes that all notes receivable are fully collectable. Therefore, no allowance is deemed to be required.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2009

(3) Property and Equipment

Property and equipment consist of the following at January 31:

	Estimated life (years)	2009	2008
Land		\$ 1,236,970	1,212,282
Buildings and improvements	10 - 40	8,951,103	8,861,086
Machinery and equipment	3 - 10	7,775,078	7,442,996
Autos, trucks and mobile homes	3 - 10	1,755,329	1,724,238
Billboards	15 - 20	1,965,765	1,810,688
Construction in progress		137,802	27,849
		<u>21,822,047</u>	<u>21,079,139</u>
Less accumulated depreciation		(12,047,341)	(11,224,637)
Property and equipment, net		<u>\$ 9,774,706</u>	<u>9,854,502</u>
Assets held for sale		2,028,414	2,028,856
Less accumulated depreciation		(905,418)	(905,556)
Assets held for sale, net		<u>\$ 1,122,996</u>	<u>1,123,300</u>

Construction in progress consists of various supply inventories the Company has on hand to repair and maintain its billboards as well as for the occasional building of billboards.

	2009	2008
Depreciation expense:		
Continuing operations	\$ 850,009	800,723
Discontinued operations	15,621	72,437
	<u>\$ 865,630</u>	<u>873,160</u>

Depreciation expense was \$865,630 and \$873,160 for fiscal years ending January 31, 2009 and 2008, respectively, and was charged to operations.

Gains and losses on sale of property and equipment:

	2009	2008
Land	\$ 42,326	40,448
Buildings and improvements	(49,954)	(7,019)
Machinery and equipment	(19,112)	(8,287)
Autos, trucks and mobile homes	2,500	1,049
	<u>\$ (24,240)</u>	<u>26,191</u>

See Note 2, Notes Receivable, for details regarding the gains on land.

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On November 27, 2006, the Company entered into a purchase agreement with Maxwell & Associates Real Estate Holdings, LLC for property, fixtures and equipment located in Edgewood, New Mexico. The contract sales price was \$1,300,000 including a \$25,000 earnest deposit. Closing was scheduled on or before January 30, 2007. Closing was extended until February 20, 2007. The closing date expired and the \$25,000 earnest deposit was advanced to the Company. The Edgewood, New Mexico location was closed October 31, 2007 and the property, fixtures and equipment remain for sale and therefore have been identified as a component as defined in FAS Statement No. 144 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The carrying value of the property, fixtures and equipment of approximately \$471,00 and \$470,000 has been reclassified as assets held for sale in the January 31, 2009 and January 31, 2008 balance sheets, respectively. The results of operations of (\$2,029), (\$140,505) and (\$119,148) for the twelve months ended January 31, 2009, 2008 and 2007, respectively, have been reclassified to loss from discontinued operations of a component, net of the related income tax benefit.

On May 24, 2007, the Company sold property, fixtures and equipment located 17 miles west of Albuquerque, New Mexico at the Rio Puerco exit to the Pueblo of Laguna for \$2,500,000 cash proceeds. The property, fixtures and equipment sold had a carrying value of approximately of \$1,352,000 and the selling costs were approximately \$181,000. The gain on the sale of the property, fixtures and equipment of approximately \$967,000 was reduced by the retirement of loan fees of approximately \$69,000 (see note 7, Long-term Debt), and was recognized as income from disposal of discontinued operations, net of taxes of approximately \$539,000. The Company used some of the net proceeds from the sale for capital expenditures at other retail locations, to pay off bank debt and investments in certificates of deposit. During fiscal years ended January 31, 2008 and January 31, 2007, this location was identified as a component as defined in FAS Statement No. 144 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The results of operations of (\$51,364) and (\$56,226) for the twelve months ended January 31, 2008 and 2007, respectively, have been reclassified to loss from discontinued operations of a component, net of the related income tax benefit.

On October 5, 2007, the Company sold property, fixtures and equipment located on Lordsburg, New Mexico to Don Juan Restaurant for \$95,000 cash proceeds. The property, fixtures and equipment sold had a carrying value of approximately \$83,000 and the selling costs were approximately \$7,000. The gain on the sale of the property, fixtures and equipment was approximately \$5,000.

On August 29, 2008, the Company disposed of approximately one acre of land in the county of Dona Ana, New Mexico to the Commissioner of Public Lands for the State of New Mexico as Trustee for the State of New Mexico. The land had a carrying value of approximately \$117,000. The Company exchanged the land for approximately 30 acres of land in Dona Ana County, New Mexico where the Company's Old West Trading Post property is located. The fair value of the land received and the carrying value of the land exchanged by the Company are approximately equal. Therefore, no gain or loss was recorded on the transaction.

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During the Company's fiscal year 2009, the Company's property, fixtures and equipment located 4 miles north of Alamogordo have been listed for sale and therefore has been identified as a component as defined in FAS Statement No. 144 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The carrying value of the property, fixtures and equipment of approximately \$652,000 and \$653,000 has been reclassified as assets held for sale in the January 31, 2009 and January 31, 2008 balance sheets, respectively. The results of operations of (\$34,471), (\$21,573) and (\$28,517) for the twelve months ended January 31, 2009, 2008 and 2007, respectively, have been reclassified to loss from discontinued operations of a component, net of the related income tax benefit.

(4) Intangible Assets

Intangible assets, at cost, consist of the following at January 31:

	2009	2008
Franchise fees	\$ 123,000	123,000
Payment for franchise fee	10,000	—
Debt issuance costs	34,755	34,755
	167,755	157,755
Less accumulated amortization	(117,132)	(110,916)
	\$ 50,623	46,839

On February 1, 2009, the Company entered into a Dairy Queen store operating license agreement for its Picacho Peak Dairy Queen store with Dairy Queen of Southern Arizona. The previous agreement between the Company and Dairy Queen of Southern Arizona expired. The license was granted for a term of ten years and at the end of January 2009, the Company paid a franchise fee of \$10,000 to Dairy Queen of Southern Arizona for granting and entering into the agreement. The franchise fee will begin amortizing February 1, 2009 using a straight-line basis over the life of the agreement.

The following schedule discloses the estimated amortization expense at January 31:

2010	\$	8,011
2011		6,143
2012		6,143
2013		6,143
2014		5,863
Thereafter		18,320
Total	\$	50,623

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(5) Investment in Real Estate

Approximately twelve acres of previously undeveloped land in Alamogordo, New Mexico was sub-divided into thirty-five approximately quarter-acre residential lots. The subdivision includes paved roads, fencing, water, sewer and electricity. Two manufactured homes were purchased and installed. One lot and manufactured home was sold in December 2003. In December 2005, two lots were sold. The other manufactured home was moved for the Company's use at the new facility in Picacho, Arizona. The thirty-two lots that remain are for sale.

(6) Long-term Debt

Long-term debt consists of the following at January 31:

	<u>2009</u>	<u>2008</u>
Due bank, maturity November 2017, interest at 5.92%, monthly installments of \$33,625, secured by certain properties	\$ 4,582,481	4,705,481
Less current maturities of continuing operations	<u>(135,869)</u>	<u>(128,386)</u>
Long-term debt, less current maturities of continuing operations	<u>\$ 4,446,612</u>	<u>4,577,095</u>

Future maturities of long-term debt for the years ending January 31 are as follows:

	<u>Continuing operations</u>
2010	\$ 135,869
2011	144,134
2012	152,902
2013	162,203
2014	172,071
Thereafter	<u>3,815,302</u>
Total	<u>\$ 4,582,481</u>

The Company uses the direct identification method for allocating interest to its discontinued operations.

On November 30, 2007, the Company exchanged its real estate debt with its primary lender Bank of the West. Previously, all of the Company's assets were held as collateral for the debt. The exchange will eliminate all of the Company's assets as collateral to several specific properties. The interest rate is currently set at 5.92% for the next five years and is subject to adjustment every five years. In accordance with EITF Issue No. 96-19, "Debtor's Accounting for a Modification of Exchange of Debt Instruments". The original debt is considered extinguished because of substantially different terms. Therefore, loan fees of approximately \$131,000 associated with the original debt were retired during the second quarter of the Company's fiscal year ended January 31, 2008 when the Bank gave the Company its firm commitment.

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At January 31, 2009 and 2008, respectively, the Company was not aware of any non-compliance with the minimum financial ratios or annual debt covenant.

(7) Income Taxes

Income taxes consist of the following for the years ended January 31:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
2009:			
U.S. Federal	\$ (251,000)	37,300	(213,700)
State	(50,300)	7,500	(42,800)
	<u>\$ (301,300)</u>	<u>44,800</u>	<u>(256,500)</u>
2008:			
U.S. Federal	\$ 356,400	(100,200)	256,200
State	71,400	(20,100)	51,300
	<u>\$ 427,800</u>	<u>(120,300)</u>	<u>307,500</u>
2007:			
U.S. Federal	\$ 272,700	(44,100)	228,600
State	54,600	(8,800)	45,800
	<u>\$ 327,300</u>	<u>(52,900)</u>	<u>274,400</u>

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pre-tax income as a result of the following for the years ended January 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Computed "expected" tax expense, continuing operations	\$ (220,077)	381,497	346,838
Computed "expected" tax benefit, discontinued operations	(19,513)	(121,325)	(116,526)
State income tax expense, net of federal tax benefit, continuing operations	(25,946)	49,657	45,501
State income tax benefit, net of federal tax benefit, discontinued operations	(2,300)	(15,792)	(15,287)
Other, continuing operations	10,413	19,741	20,894
Other, discontinued operations	923	(6,278)	(7,020)
Total	<u>\$ (256,500)</u>	<u>307,500</u>	<u>274,400</u>

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

	2009	2008
Deferred tax assets –		
At January 31, 2009 deferred revenue principally due to accrual for financial reporting purposes	\$ 13,911	13,329
At January 31, 2009, compensated absences, principally due to accrual for financial reporting purposes	33,556	33,996
Rounding	33	(225)
Total gross deferred tax assets	47,500	47,100
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	732,666	682,648
Rounding	(1,366)	3,452
Total gross deferred liabilities	731,300	686,100
Net deferred tax liability	\$ 683,800	639,000

There was no valuation allowance for deferred tax assets as of January 31, 2009, 2008 or 2007. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

At January 31, 2001, the company recorded a tax payable to Lamar Advertising Company (“Lamar”) (as successor to Bowlin Outdoor Advertising and Travel Centers Incorporated (“Outdoor”). Prior to that date, the Company and Outdoor were part of a consolidated group for tax purposes, and effective January 30, 2001, Outdoor spun off the stock of the Company in a tax free distribution to Outdoor’s shareholders. Immediately thereafter, Outdoor merged with Lamar.

In anticipation of the spin-off, the Company and Outdoor entered into a Tax Sharing and Disaffiliation Agreement, pursuant to which Outdoor and the Company each agreed to indemnify the other against taxes attributable to their respective operations, both before and after the spin-off. The Tax Sharing and Disaffiliation Agreement specifically provided that, in determining taxes attributable to Outdoor and the Company would offset the income of the other. Thus, if the net losses for Outdoor were in excess of the income of the Company for a tax year, the Company would not have any payment obligation to Outdoor under the Tax Sharing and Disaffiliation Agreement for such tax year.

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Outdoor's net losses for tax year 2000 (fiscal year ending January 31, 2001) exceeded the income of the Company for such year. As a result, the Company had no obligation to Outdoor for any payment under the Tax Sharing and Disaffiliation Agreement. Management believes that the Company had no obligation to Outdoor for any such payment under the Tax Sharing and Disaffiliation Agreement. As a result, the liability of \$201,200 has been removed from the Company's books and recorded as an unusual item in the income statement.

(8) Profit-Sharing Plan

The Company maintains a qualified defined contribution profit-sharing plan that covers substantially all employees. The plan year end is December 31. The elected salary reduction is subject to limits as defined by the Internal Revenue Code. The Company provides a matching contribution and additional discretionary contributions as determined by resolution of the board of directors. Legal and accounting expenses related to the plan are absorbed by the Company. The Company's contributions to the profit-sharing plan were \$56,298, \$63,838 and \$61,926 in fiscal 2009, 2008 and 2007, respectively.

(9) Commitments

The Company leases land at several of its retail operating locations. Included in general and administrative expenses in the accompanying statements of income is rental expense for these land leases of \$235,102, \$250,875 and \$240,215 for the years ended January 31, 2009, 2008 and 2007, respectively. The Company also leases land where several of its retail billboards are located and rent expense for these leases was \$181,676, \$186,609 and \$187,552 for the years ended January 31, 2009, 2008 and 2007, respectively.

The leasing agreements for the various locations include 5 to 35 year leases with remaining lives on those leases ranging from approximately 5 to 30 years at January 31, 2009. One of the contingent rentals has a fixed annual payment of \$20,000 adjusted annually according to the consumer price index (CPI) plus 2.5% of merchandise and Dairy Queen sales plus \$0.0025 of gasoline gallons sold. One of the contingent rentals is based on 3% of merchandise sold plus \$0.02 of gasoline gallons sold. One of the contingent leases has a fixed annual payment of \$23,852 adjusted every five years according to the consumer price index (CPI) plus 2.5% of merchandise sales and \$0.0025 of gasoline gallons sold. One of the contingent leases has a fixed monthly amount of \$4,267 plus 10% of merchandise sales up to \$250,000; the percentage changes to 5% in excess of \$250,000 plus 5% of Dairy Queen sales up to \$140,000; the percentage changes to 3% in excess of \$140,000 plus \$0.005 per gallons sold with a base of \$100 per month. In most cases, the Company is responsible for certain repairs and maintenance, insurance, property taxes or property tax increases, and utilities.

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Future minimum rental payments under these leases are as follows:

Year ending January 31:	
2010	\$ 279,615
2011	188,115
2012	108,418
2013	111,541
2014	94,126
Thereafter	<u>881,559</u>
Total	<u>\$ 1,663,374</u>

(10) Subsequent Pronouncements

On November 2008, the FASB announced plans to issue final FSP FAS 140-4 and FIN 46(R)-8, “Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities”. The purpose of this FSP is to promptly improve disclosures by public entities and enterprises until the pending amendments to FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” and FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities”, are finalized and approved by the Board. Effective at the end of the first reporting period (interim and annual) after issuance of the FSP for public entities, the FSP amends Statement 140 to require public entities to provide additional disclosures about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends Interpretation 46(R) to require public enterprises to provide additional disclosures about their involvement with variable interest entities. FAS 140-4 and FIN 46(R)-8 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the effect of FAS 140-4 and FIN 46(R)-8 on its financial statements, but it is not expected to be material.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities”. This pronouncement amends SFAS No. 133 and requires enhanced disclosures about an entity’s derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently assessing the effect of SFAS No. 161 on its financial statements, but it is not expected to be material.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.” This statement provides new accounting guidance and disclosure and presentation requirements for noncontrolling interest in a subsidiary. SFAS No. 160 is effective for the first fiscal year beginning on or after December 15, 2008. The Company is currently assessing the effect of SFAS No. 160 on its financial statements, but it is not expected to be material.

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In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This statement provides new accounting guidance and disclosure requirements for business combinations. SFAS No. 141(R) is effective for business combinations which occur in the first fiscal year beginning on or after December 15, 2008.

In December 2007, the FASB finalized the provisions of the Emerging Issues Task Force (EITF) Issue No. 07-1, "Accounting for Collaborative Arrangements." This EITF Issue provides guidance and requires financial statement disclosures for collaborative arrangements. EITF Issue No. 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the effect of EITF Issue No. 07-1 on its financial statements but it is not expected to be material.