

BOWLIN TRAVEL CENTERS, INC.

Financial Statements

January 31, 2010 and 2009

150 Louisiana NE, Albuquerque, NM 87108 (505) 266-5985



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, 2010 and 2009, and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2010. 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, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2010 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 7, 2010

Certified Public Accountants
2700 San Pedro Northeast [87110-333] – P.O. Box 3130, Albuquerque, New Mexico 87190-3130
866.307.2727 – 505.883.2727 – Fax 505.884.6719 – albuquerque.office@acgnm.com – www.acgnm.com
Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock

BOWLIN TRAVEL CENTERS, INC.
Balance Sheets
January 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 2,423,683	\$ 2,409,708
Marketable securities	1,657,128	1,500,000
Accounts receivable	88,204	53,346
Inventories	3,265,317	3,176,009
Income taxes	53,890	334,926
Interest receivable	6,222	19,779
Prepaid expenses	196,483	198,946
Deferred income taxes	52,056	47,500
Notes receivable, current maturities	36,598	54,584
Total current assets	<u>7,779,581</u>	<u>7,794,798</u>
Property and equipment, net	10,051,921	9,774,706
Assets held for sale	470,882	1,122,996
Intangible assets, net of \$125,141 and \$117,132 accumulated amortization	42,614	50,623
Investment in real estate	419,389	419,389
Notes receivable, less current portion	52,917	117,296
Total assets	<u>\$ 18,817,304</u>	<u>\$ 19,279,808</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 143,958	\$ 135,869
Accounts payable	792,536	648,731
Accrued salaries and benefits	427,041	421,520
Accrued liabilities	207,604	204,544
Deferred revenue, current	30,112	35,669
Total current liabilities	<u>1,601,251</u>	<u>1,446,333</u>
Deferred income taxes	650,156	731,300
Long-term debt, less current maturities	4,305,548	4,446,612
Total liabilities	<u>6,556,955</u>	<u>6,624,245</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized, none issued or outstanding at January 31, 2010 and 2009	—	—
Common stock, \$0.001 par value; 10,000,000 shares authorized, 4,384,277 issued and outstanding at January 31, 2010 and 4,582,348 issued and outstanding at January 31, 2009	4,583	4,583
Less: Treasury stock	199	1
Common stock outstanding	4,384	4,582
Additional paid-in capital, net	9,568,428	9,773,593
Retained earnings	2,687,537	2,877,388
Total stockholders' equity	<u>12,260,349</u>	<u>12,655,563</u>
Total liabilities and stockholders' equity	<u>\$ 18,817,304</u>	<u>\$ 19,279,808</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Income

	Years ended January 31,		
	2010	2009	2008
Gross sales	\$ 23,271,386	\$ 24,916,394	\$ 28,651,097
Less discounts on sales	(225,855)	(219,166)	(468,180)
Net sales	23,045,531	24,697,228	28,182,917
Cost of goods sold	14,990,088	17,346,690	19,670,382
Gross profit	8,055,443	7,350,538	8,512,535
General and administrative expense	(7,389,744)	(7,132,232)	(7,489,912)
Depreciation and amortization	(919,687)	(850,009)	(800,723)
Operating (loss) income	(253,988)	(631,703)	221,900
 Other non-operating (expense) income:			
Interest income	43,440	128,750	189,212
Gain (loss) on sale of property and equipment	22,604	(24,240)	26,191
Rental income	176,494	155,772	159,358
Miscellaneous	51	30	2,125
Interest expense	(274,252)	(275,896)	(374,078)
Total other non-operating (expense) income	(31,663)	(15,584)	2,808
 (Loss) income from continuing operations before income tax benefit (expense)			
	(285,651)	(647,287)	224,708
Income tax benefit (expense)	95,800	235,610	(102,626)
(Loss) income from continuing operations	(189,851)	(411,677)	122,082
 Discontinued operations			
Loss from operations of discontinued component	—	(57,390)	(356,837)
Income tax benefit	—	20,890	143,395
	—	(36,500)	(213,442)
Income from disposal of discontinued operations, net of income tax expense	—	—	549,071
 Net (loss) income	 \$ (189,851)	 \$ (448,177)	 \$ 457,711
 (Loss) earnings per share:			
Basic and diluted, continuing operations	\$ (0.04)	\$ (0.09)	\$ 0.03
Basic and diluted, discontinued operations	\$ —	\$ (0.01)	\$ (0.05)
Basic and diluted, disposals of discontinued operations	\$ —	\$ —	\$ 0.12
Basic and diluted, net (loss) income	\$ (0.04)	\$ (0.10)	\$ 0.10
 Weighted average common shares outstanding			
	4,384,277	4,582,348	4,583,348

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Stockholders' Equity
For the Years Ended January 31, 2010, 2009 and 2008

	<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, 2008	4,583,348	\$ 4,583	\$ 9,775,192	\$ 3,325,565	\$ 13,105,340
Net loss	—	—	—	(448,177)	(448,177)
Treasury stock	(1,000)	(1)	—	—	(1)
Additional paid-in capital, treasury	—	—	(1,599)	—	(1,599)
Balance at January 31, 2009	4,582,348	4,582	9,773,593	2,877,388	12,655,563
Net loss	—	—	—	(189,851)	(189,851)
Treasury stock	(198,071)	(198)	—	—	(198)
Additional paid-in capital, treasury	—	—	(205,165)	—	(205,165)
Balance at January 31, 2010	<u>4,384,277</u>	<u>\$ 4,384</u>	<u>\$ 9,568,428</u>	<u>\$ 2,687,537</u>	<u>\$ 12,260,349</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	Years ended January 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net (loss) income	\$ (189,851)	(448,177)	457,711
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	919,687	865,630	873,160
Amortization of loan fee	3,475	3,476	14,465
Loss (gain) on sale of property and equipment	(22,604)	24,240	(992,799)
Provision for deferred income taxes	(85,700)	44,800	(120,300)
Retirement of debt issuance costs	—	—	131,602
Changes in operating assets and liabilities:			
Accounts receivable	(34,858)	40,837	(51,080)
Inventories	(89,308)	234,616	244,258
Prepaid expenses and other	283,499	(80,759)	(51,239)
Accounts payable and accrued liabilities	152,386	(113,524)	(241,136)
Deferred revenue	(5,557)	12,199	(19,356)
Net cash provided by operating activities	<u>931,169</u>	<u>583,338</u>	<u>245,286</u>
Cash flows from investing activities:			
Proceeds from sale of assets	8,800	3,300	2,448,483
Purchases of property and equipment	(559,735)	(852,656)	(1,086,909)
Accrued interest receivable	13,557	9,674	(13,413)
Investment in real estate	—	(726)	3,259
Purchase of marketable securities	(1,657,128)	(1,500,000)	(2,300,000)
Franchise fee payment	—	(10,000)	—
Proceeds from sale of marketable securities	1,500,000	2,300,000	453,000
Payment received from notes receivable	115,650	102,357	97,751
Net cash (used in) provided by investing activities	<u>(578,856)</u>	<u>51,949</u>	<u>(397,829)</u>
Cash flows from financing activities:			
Payments on long-term debt	(132,975)	(123,000)	(221,677)
Payments for debt issuance costs	—	—	(34,755)
Treasury stock	(198)	(1)	—
Additional paid-in capital, treasury stock	(205,165)	(1,599)	—
Net cash used in financing activities	<u>(338,338)</u>	<u>(124,600)</u>	<u>(256,432)</u>
Net increase (decrease) in cash and cash equivalents	13,975	510,687	(408,975)
Cash and cash equivalents at beginning of year	<u>2,409,708</u>	<u>1,899,021</u>	<u>2,307,996</u>
Cash and cash equivalents at end of year	<u>\$ 2,423,683</u>	<u>2,409,708</u>	<u>1,899,021</u>

(Continued)

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	<u>Years ended January 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ <u>274,252</u>	\$ <u>284,966</u>	\$ <u>490,481</u>
Cash paid for income taxes	\$ <u>—</u>	\$ <u>—</u>	\$ <u>480,000</u>
Noncash investing and financing activities:			
Like-kind exchange of property	\$ <u>—</u>	\$ <u>116,662</u>	\$ <u>—</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
January 31, 2010

(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 five full-service restaurants under the Dairy Queen/Brazier or Dairy Queen trade names. 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 maturity dates less than one year and are fully insured by Federal Deposit Insurance Corporation insurance.

(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 \$112,830 and \$113,929 of direct and indirect costs incurred during pre-sale periods to inventory at January 31, 2010 and January 31, 2009 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.

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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 \$1,272,839, \$1,079,056 and \$1,458,474 for fiscal years ended January 31, 2010, 2009 and 2008, respectively.

The Company also collects and remits gross receipts taxes on sales. Gross receipts taxes of approximately \$644,434, \$604,554 and \$706,651 were collected and remitted for fiscal years ended January 31, 2010, 2009 and 2008, 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, 2010

(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 in the United States of America. 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 repurchased 198,071 of its outstanding common shares for fiscal year ended January 31, 2010 at an average price per share of \$1.01, for a total repurchase of \$205,363. The common stock issued and outstanding was reduced by 198,071 shares or \$198 (198,071 shares times the par value of \$0.001), and additional paid in capital was reduced by \$205,165. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet.

The Company repurchased 1,000 of its outstanding common shares for fiscal year ended January 31, 2009 at \$1.60 per share, for a total repurchase of \$1,600. The common stock issued and outstanding was reduced by 1,000 shares or \$1 (1,000 shares time the par value of \$0.001), 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.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
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There was no issuance of the Company's outstanding common shares for fiscal years ended January 31, 2010, 2009 and 2008, respectively.

(n) *Reclassifications*

Certain 2009 and 2008 amounts have been reclassified to conform to 2010 presentation. Such reclassifications had no effect on net income. Property and equipment held for sale is reclassified as a component separate from continuing operations in the income statement in accordance with FASB ASC 2005-20-45 – Accounting for Impairment or Disposal of Long-lived Assets (as amended). Management's intent is to sell one of the Company's retail locations, which was closed in October 2007, in the ensuing fiscal year. A second operating location listed for sale in previous fiscal years was taken off the market for fiscal year ended January 31, 2010 and results of operations were included with continuing operations.

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. A reclassification of \$500,000 from marketable securities to cash was made on the balance sheet for fiscal year ended January 31, 2009 to correct the original maturity of three months or less. There was no effect on net assets or current assets for that period.

(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 FASB ASC 360, "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.

BOWLIN TRAVEL CENTERS, INC.
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January 31, 2010

(r) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$75,977, \$57,815 and \$71,488 for fiscal years ended January 31, 2010, 2009 and 2008 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 expense was approximately \$89,678, \$118,447 and \$185,194 for fiscal years ended January 31, 2010, 2009 and 2008, 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.

All of the Company's Arizona locations 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 to purchase paying a distributor's markup price of \$0.015 cents per gallon. There are no minimum or maximum gallon purchase requirements for the Company under the retail supply agreement with Arizona Fuel Distributors, L.L.C

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
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(2) Notes Receivable

Notes receivable as of January 31, 2010 and 2009 consist of the following:

	2010	2009
\$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. Modified September 10, 2009; \$46,000 8%, due \$206 interest only monthly, \$6,000 principal due the first year and \$10,000 annually for the remaining four years (a)	\$ 5,948	\$ 6,841
\$80,000 8% note of which \$21,886 is deferred, due \$1,622 monthly (including interest) through 2010 (a)	11,364	23,021
\$75,000 8% note of which \$31,378 is deferred, due \$4,587 quarterly (including interest) through 2010 (a)	—	766
\$53,000 8.5% note, due \$680 monthly (including interest) through 2011 (b)	38,568	43,232
\$108,500 9% note, of which \$24,409 is deferred, due \$6,797 quarterly (including interest) through 2011 (a)	33,635	50,694
\$67,500 9% note, of which \$15,120 is deferred, due \$3,398 quarterly (including interest) through 2011 (a)	—	23,663
\$67,500 9% note, of which \$15,120 is deferred, due \$3,398 quarterly (including interest) through 2011 (a)	—	23,663
	89,515	171,880
Less current portion	(36,598)	(54,584)
	\$ 52,917	\$ 117,296

- (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 FASB ASC 360, "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 (FASB ASC, "Accounting for Sales of Real Estate"). Therefore the gain will be recognized into income using the installment method as payments are received. The current deferred gain is reflected as

BOWLIN TRAVEL CENTERS, INC.
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January 31, 2010

a reduction to the note receivable in the accompanying balance sheet. On September 10, 2009, the Company modified the note receivable with Lost River Estates, LLC. The total principal amount outstanding was \$46,000. The principal payment due September 1, 2009, in the amount of \$24,000, was reduced to \$6,000. The maturity date was extended to September 1, 2013, with annual principal payments of \$10,000 due each September 1st. The stated interest rate of 8% continued on the outstanding balance and is payable monthly on the first day of the month. All other terms and conditions remain in force and are consistent with the original agreement.

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 (FASB ASC 360, "Accounting for Sales of Real Estate"). 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 \$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 FASB ASC 360, "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 (FASB ASC 360, "Accounting for Sales of Real Estate"). 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 FASB ASC 360, "Accounting for Sales of Real Estate", the gain was deferred because the minimum initial investment by the buyer was less than the required 20%

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initial investment expressed as a percentage of the sales value (FASB ASC 360, "Accounting for Sales of Real Estate"). 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 (FASB ASC 360, "Accounting for Sales of Real Estate"). 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.

(3) Property and Equipment

Property and equipment consist of the following at January 31:

	Estimated life (years)	2010	2009
Land		\$ 1,716,091	\$ 1,236,970
Buildings and improvements	10 - 40	9,279,539	8,951,103
Machinery and equipment	3 - 10	8,177,807	7,775,078
Autos, trucks and mobile homes	3 - 10	1,833,705	1,755,329
Billboards	15 - 20	2,238,498	1,965,765
Construction in progress		43,638	137,802
		<u>23,289,278</u>	<u>21,822,047</u>
Less accumulated depreciation		(13,237,357)	(12,047,341)
Property and equipment, net		<u>\$ 10,051,921</u>	<u>\$ 9,774,706</u>
Assets held for sale		\$ 1,094,078	\$ 2,028,414
Less accumulated depreciation		(623,196)	(905,418)
Assets held for sale, net		<u>\$ 470,882</u>	<u>\$ 1,122,996</u>

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

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	2010	2009
Depreciation expense:		
Continuing operations	\$ 919,687	\$ 850,009
Discontinued operations	—	15,621
	\$ 919,687	\$ 865,630

Depreciation expense was \$919,687 and \$865,630 for fiscal years ending January 31, 2010 and 2009, respectively, and was charged to operations.

Gains and losses on sale of property and equipment:

	2009	2009
Land	\$ 33,285	\$ 42,326
Buildings and improvements	(5,218)	(49,954)
Machinery and equipment	(4,501)	(19,112)
Autos, trucks and mobile homes	(962)	2,500
	\$ 22,604	\$ (24,240)

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

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 6, 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 FASB ASC 2005-20-45 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The results of operations of (\$51,364) for the twelve months ended January 31, 2008, have been reclassified to loss from discontinued operations of a component, net of the related income tax benefit.

The Company's 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 FASB ASC 2005-20-45 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The carrying value of the property, fixtures and equipment of approximately \$471,00 has been reclassified as assets held for sale in the January 31, 2010 and January 31, 2009 balance sheets. The Company continues to list the property for sale. There was no operational activity during fiscal year 2010 and therefore no results of operations. The results of operations of (\$2,029) and (\$140,505) for the twelve months ended January 31, 2009 and 2008, respectively,

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have been reclassified to loss from discontinued operations of a component, net of the related income tax benefit.

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.

During the Company's fiscal year ended January 31, 2010, the Alamogordo location was not listed for sale. Therefore, results of operations are included with continuing operations. During the Company's fiscal year 2009 and 2008, 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 FASB ASC 2005-20-45 – Accounting for Impairment or Disposal of Long-Lived Assets (as amended). The carrying value of the property, fixtures and equipment of approximately \$652,00 has been reclassified as assets held for sale in the January 31, 2009 balance sheet. The results of operations of (\$34,471) and (\$21,573) for the twelve months ended January 31, 2009 and 2008 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:

	<u>2010</u>	<u>2009</u>
Franchise fees	\$ 133,000	\$ 123,000
Payment for franchise fee	—	10,000
Debt issuance costs	<u>34,755</u>	<u>34,755</u>
	167,755	167,755
Less accumulated amortization	<u>(125,141)</u>	<u>(117,132)</u>
	<u>\$ 42,614</u>	<u>\$ 50,623</u>

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 began amortizing February 1, 2009 using a straight-line basis over the life of the agreement.

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

2011	\$	6,143
2012		6,143
2013		6,143
2014		5,864
2015		4,476
Thereafter		<u>13,845</u>
Total	\$	<u><u>42,614</u></u>

(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>2010</u>	<u>2009</u>
Due bank, maturity November 2017, interest at 5.92%, monthly installments of \$33,625, secured by certain properties	\$ 4,449,506	\$ 4,582,481
Less current maturities of continuing operations	<u>(143,958)</u>	<u>(135,869)</u>
Long-term debt, less current maturities of continuing operations	<u>\$ 4,305,548</u>	<u>\$ 4,446,612</u>

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

	<u>Continuing operations</u>
2011	\$ 143,958
2012	152,715
2013	162,005
2014	171,861
2015	182,315
Thereafter	<u>3,636,652</u>
Total	<u>\$ 4,449,506</u>

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

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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 changed the Company's collateral to several specific properties rather than all assets. 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 FASB ASC 470-50-55, "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.

At January 31, 2010 and 2009, 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>
2010:			
U.S. Federal	\$ (8,400)	\$ (71,400)	\$ (79,800)
State	<u>(1,700)</u>	<u>(14,300)</u>	<u>(16,000)</u>
	<u>\$ (10,100)</u>	<u>\$ (85,700)</u>	<u>\$ (95,800)</u>
2009:			
U.S. Federal	\$ (251,000)	\$ 37,300	\$ (213,700)
State	<u>(50,300)</u>	<u>7,500</u>	<u>(42,800)</u>
	<u>\$ (301,300)</u>	<u>\$ 44,800</u>	<u>\$ (256,500)</u>
2008:			
U.S. Federal	\$ 356,400	\$ (100,200)	\$ 256,200
State	<u>71,400</u>	<u>(20,100)</u>	<u>51,300</u>
	<u>\$ 427,800</u>	<u>\$ (120,300)</u>	<u>\$ 307,500</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:

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	2010	2009	<u>2008</u>
Computed "expected" tax expense, continuing operations	\$ (95,897)	\$ (220,077)	\$ 381,497
Computed "expected" tax benefit, discontinued operations	—	(19,513)	(121,325)
State income tax expense, net of federal tax benefit, continuing operations	(10,662)	(25,946)	49,657
State income tax benefit, net of federal tax benefit, discontinued operations	—	(2,300)	(15,792)
Other, continuing operations	10,759	10,413	19,741
Other, discontinued operations	—	923	(6,278)
Total	<u>\$ (95,800)</u>	<u>\$ (256,500)</u>	<u>\$ 307,500</u>

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:

	<u>2010</u>	<u>2009</u>
Deferred tax assets –		
At January 31, 2010 deferred revenue principally due to accrual for financial reporting purposes	\$ 11,744	\$ 13,911
At January 31, 2010, compensated absences, principally due to accrual for financial reporting purposes	33,301	33,556
At January 31, 2010, contributions, principally due to limitation due to net losses	7,011	3,338
Rounding	—	(3,305)
Total gross deferred tax assets	<u>52,056</u>	<u>47,500</u>
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	646,501	732,666
Rounding	3,655	(1,366)
Total gross deferred liabilities	<u>650,156</u>	<u>731,300</u>
Net deferred tax liability	<u>\$ 598,100</u>	<u>\$ 683,800</u>

There was no valuation allowance for deferred tax assets as of January 31, 2010, 2009 or 2008. 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

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believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company adopted the provisions of FASB ASC 740-10-15 "Accounting for Uncertainty in Income Taxes" on February 1, 2009. Upon adoption, the Company recognized no change to opening retained earnings.

In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessment by these taxing authorities. Accordingly, the Company believes it is more likely than not that it will realize the benefits of tax positions it has taken in its tax returns or for the amount of any tax benefit that exceeds the cumulative probability threshold in accordance with FASB ASC 740-10-15. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position.

The Company is not under examination for any open tax years.

(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 \$51,540, \$56,298 and \$63,838 in fiscal 2010, 2009 and 2008, 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 \$227,184, \$235,102 and \$250,875 for the years ended January 31, 2010, 2009 and 2008, respectively. The Company also leases land where several of its retail billboards are located and rent expense for these leases was \$178,503, \$181,676 and \$186,609 for the years ended January 31, 2010, 2009 and 2008, 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, 2010. One of the contingent rentals has a fixed annual payment of \$36,000 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

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\$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.

Future minimum rental payments under these leases are as follows:

Year ending January 31:	
2011	\$ 223,713
2012	119,078
2013	122,201
2014	104,786
2015	103,886
Thereafter	<u>805,844</u>
Total	<u>\$ 1,479,508</u>

Future expenditures include \$600,000 for fuel containment upgrades beginning in 2010 and lasting through 2011 due to changes in environmental regulations and \$600,000 for early exercise of an option to purchase one of the Company's leased properties in April 2010. In addition, the Company will be switching its health insurance to Blue PPO 5000, which will increase employee deductibles from \$2,000 to \$5,000, with employees being responsible for the deductible up to \$3,000, and the Company absorbing the cost for the remaining \$2,000. The maximum liability to the Company would be approximately \$56,000.

(10) Fair Value Measurements

The Company uses a hierarchy that prioritizes the inputs used in measuring fair value such that the highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair measurement.

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of unobservable inputs. See Note 1 for discussion of valuation methodologies used to measure fair value of investments.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of January 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Certificates of deposit	\$ 1,657,128	\$ —	\$ —	\$ 1,657,128
Total assets at fair value	<u>\$ 1,657,128</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,657,128</u>
Liabilities				
Total liabilities at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(11) Subsequent Events

The Company has evaluated events subsequent to January 31, 2010, the balance sheet date, for events that would possibly require adjustment or disclosures in these financial statements, through April 7, 2010, the date that these statements were available to be issued.

During the first quarter, the Company repurchased 112,948 of its outstanding shares at an average price per share of approximately \$1.07, for a total repurchase of approximately \$120,854. The common stock issued and outstanding was reduced by 112,948 or approximately \$113 (112,948 time the par value of \$0.001), and additional paid in capital will be reduced by approximately \$114,023.

(12) Subsequent Pronouncements

In April 2009, the FASB issued ASC 825 and ASC 270, "Interim Disclosure about Fair Value of Financial Instruments" (ASC 825/ASC 270). ASC 825/ ASC 270 requires interim disclosures regarding the fair values of financial instruments that are within the scope of ASC 825, "Disclosures about the Fair Value of Financial Instruments". Additionally, ASC 825/ ASC 270 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. ASC 825/ASC 270 does not change the accounting treatment for these financial instruments and is effective for interim

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reporting periods ending after June 15, 2009. The Company believes that the adoption of ASC 825/ ASC 270 will not have an effect on its financial statements.

In April 2009, the FASB issued ASC 302-10-65 and ASC 958, "Recognition and Presentation of Other-Than-Temporary Impairment" (ASC 302-10-65/ASC 958). ASC 302-10-65/ASC 958 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing "intent and ability" indicator. Under ASC 302-10-65/ASC 958, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, ASC 302-10-65/ASC 958 changes the presentation of another-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. ASC 302-10-65/ASC 958 is effective for interim and annual reporting periods ending after June 15, 2009. The Company believes that the adoption of ASC 302-10-65/ASC 958 will not have an effect on its financial statements.

In April 2009, the FASB issued ASC 820-10-15, "Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (ASC 820-10-15). ASC 820-10-15 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. ASC 820-10-15 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, ASC 820-10-15 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. ASC 820-10-15 is effective for interim and annual reporting periods after June 15, 2009, applied prospectively. The Company believes that the adoption of ASC 820-10-15 will not have an effect on its financial statements.

In April 2009, the FASB issued ASC 805-10 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (ASC 805-10). ASC 805-10 will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under ASC 360, "Business Combinations", (ASC 360). ASC 805-10 will carry forward the requirements in ASC 360, "Business Combinations", for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with FASB ASC 450-10, "Accounting for Contingencies". ASC 805-10 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company believes that the adoption of ASC 805-10 will not have an effect on its financial statements.

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On November 2008, the FASB announced plans to issue final ASC 860 and ASC 810-10, “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 ASC 860-10, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” and ASC 810-10 (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 FASB ASC 860-10 to require public entities to provide additional disclosures about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends ASC 810-10 to require public enterprises to provide additional disclosures about their involvement with variable interest entities. ASC 860 and ASC 810-10 are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the effect of ASC 860 and ASC 810-10 on its financial statements, but it is not expected to be material.

In March 2008, the FASB issued ASC 815-10, “Disclosures about Derivative Instruments and Hedging Activities”. This pronouncement amends ASC 815-10 and requires enhanced disclosures about an entity’s derivative and hedging activities thereby improving the transparency of financial reporting. ASC 815-10 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently assessing the effect of ASC 815-10 on its financial statements, but it is not expected to be material.