

BOWLIN TRAVEL CENTERS, INC.

Financial Statements

January 31, 2012 and 2011

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



Accounting & Consulting Group, LLP
Certified Public Accountants

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, 2012 and 2011, and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2012. 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, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2012 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 11, 2012

BOWLIN TRAVEL CENTERS, INC.
Balance Sheets
January 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 2,061,313	\$ 2,891,085
Marketable securities	900,000	1,000,000
Accounts receivable	5,491	29,841
Inventories	3,488,003	3,513,730
Income taxes	602,282	113,190
Interest receivable	440	1,308
Prepaid expenses	240,531	209,159
Deferred income taxes	623,812	50,928
Notes receivable, current maturities	1,488	1,488
Total current assets	<u>7,923,360</u>	<u>7,810,729</u>
Property and equipment, net	10,800,139	10,929,954
Capital lease, net	243,103	—
Assets held for sale	413,378	413,503
Intangible assets, net of \$141,444 and \$132,417 accumulated amortization	49,904	48,931
Investment in real estate	419,389	419,389
Notes receivable, less current portion	1,484	2,972
Total assets	<u>\$ 19,850,757</u>	<u>\$ 19,625,478</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 195,036	\$ 184,239
Current maturity of capital lease obligation	54,716	—
Accounts payable	463,685	827,017
Accrued salaries and benefits	323,705	444,585
Accrued liabilities	232,744	202,298
Deferred revenue, current	21,192	32,010
Total current liabilities	<u>1,291,078</u>	<u>1,690,149</u>
Deferred income taxes	1,643,412	715,128
Long-term debt, less current maturities	4,990,700	5,181,505
Capital lease obligation, less current maturities	188,387	—
Total liabilities	<u>8,113,577</u>	<u>7,586,782</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized, none issued or outstanding at January 31, 2012 and 2011	—	—
Common stock, \$0.001 par value; 10,000,000 shares authorized, 4,186,133 issued and outstanding at January 31, 2012 and 4,213,141 issued and outstanding at January 31, 2011	4,583	4,583
Less: treasury stock	397	370
Common stock outstanding	<u>4,186</u>	<u>4,213</u>
Additional paid-in capital, net	9,343,737	9,383,568
Retained earnings	<u>2,389,257</u>	<u>2,650,915</u>
Total stockholders' equity	<u>11,737,180</u>	<u>12,038,696</u>
Total liabilities and stockholders' equity	<u>\$ 19,850,757</u>	<u>\$ 19,625,478</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Income

	Years ended January 31,		
	2012	2011	2010
Gross sales	\$ 27,914,044	\$ 26,298,132	\$ 23,271,386
Less discounts on sales	(347,895)	(212,494)	(225,855)
Net sales	27,566,149	26,085,638	23,045,531
Cost of goods sold	19,169,139	17,394,486	14,990,088
Gross profit	8,397,010	8,691,152	8,055,443
General and administrative expense	(7,643,200)	(7,778,437)	(7,389,744)
Depreciation and amortization	(1,033,684)	(941,534)	(919,687)
Operating loss	(279,874)	(28,819)	(253,988)
 Other non-operating (expense) income:			
Interest income	9,167	23,933	43,440
Gain (loss) on sale of property and equipment	11,835	34,580	22,604
Rental income	190,558	226,308	176,494
Miscellaneous	—	740	51
Interest expense	(336,744)	(291,464)	(274,252)
Total other non-operating (expense) income	(125,184)	(5,903)	(31,663)
 Loss before income tax benefit (expense)	 (405,058)	 (34,722)	 (285,651)
Income tax benefit (expense)	143,400	(1,900)	95,800
 Net loss	 \$ (261,658)	 \$ (36,622)	 \$ (189,851)
 Loss per share:			
Basic and diluted, net loss	\$ (0.06)	\$ (0.01)	\$ (0.04)
 Weighted average common shares outstanding	 4,186,133	 4,213,141	 4,384,277

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Stockholders' Equity
For the Years Ended January 31, 2012, 2011 and 2010

	<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, 2010	4,384,277	4,384	9,568,428	2,687,537	12,260,349
Net loss	—	—	—	(36,622)	(36,622)
Treasury stock	(171,136)	(171)	—	—	(171)
Additional paid-in capital, treasury	—	—	(184,860)	—	(184,860)
Balance at January 31, 2011	4,213,141	4,213	9,383,568	2,650,915	12,038,696
Net loss	—	—	—	(261,658)	(261,658)
Treasury stock	(27,008)	(27)	—	—	(27)
Additional paid-in capital, treasury	—	—	(39,831)	—	(39,831)
Balance at January 31, 2012	<u>4,186,133</u>	<u>\$ 4,186</u>	<u>\$ 9,343,737</u>	<u>\$ 2,389,257</u>	<u>\$ 11,737,180</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	Years ended January 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net loss	\$ (261,658)	(36,622)	(189,851)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	1,033,684	941,534	919,687
Amortization of loan fee	6,194	4,609	3,475
(Gain) loss on sale of property and equipment	(11,835)	(34,580)	(22,604)
Provision for deferred income taxes	294,300	66,200	(85,700)
Changes in operating assets and liabilities:			
Accounts receivable	24,350	58,363	(34,858)
Inventories	25,727	(248,413)	(89,308)
Prepaid expenses and other	(459,364)	(72,076)	283,499
Accounts payable and accrued liabilities	(453,766)	46,719	152,386
Deferred revenue	(10,818)	1,898	(5,557)
Net cash provided by operating activities	186,814	727,632	931,169
Cash flows from investing activities:			
Proceeds from sale of assets	4,500	79,242	8,800
Purchases of property and equipment	(850,973)	(1,826,734)	(559,735)
Accrued interest receivable	868	4,914	13,557
Purchase of marketable securities	(900,000)	(1,000,000)	(1,657,128)
Franchise fee payment	(10,000)	—	—
Proceeds from sale of marketable securities	1,000,000	1,657,128	1,500,000
Increase in notes receivable	—	(52,000)	—
Payment received from notes receivable	10,000	159,605	115,650
Net cash used in investing activities	(745,605)	(977,845)	(578,856)
Cash flows from financing activities:			
Payments on long-term debt	(180,007)	(153,761)	(132,975)
Proceeds from new debt	—	1,070,000	—
Payments for debt issuance costs	—	(13,593)	—
Payments for capital lease obligation	(51,114)	—	—
Treasury stock	(27)	(171)	(198)
Additional paid-in capital, treasury stock	(39,833)	(184,860)	(205,165)
Net cash used in (provided by) financing activities	(270,981)	717,615	(338,338)
Net decrease (increase) in cash and cash equivalents	(829,772)	467,402	13,975
Cash and cash equivalents at beginning of year	2,891,085	2,423,683	2,409,708
Cash and cash equivalents at end of year	\$ 2,061,313	2,891,085	2,423,683

(Continued)

BOWLIN TRAVEL CENTERS, INC.
Statements of Cash Flows

	<u>Years ended January 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ <u>336,744</u>	\$ <u>291,464</u>	\$ <u>274,252</u>
Noncash investing and financing activities:			
Capital lease	\$ <u>294,218</u>	\$ <u>—</u>	\$ <u>—</u>

See accompanying notes to financial statements.

BOWLIN TRAVEL CENTERS, INC.
Notes to Financial Statements
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(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 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. Eight of the Company's travel centers offer fuel and the Company operates five full-service restaurants under the Dairy Queen/Brazier or Dairy Queen trade names. All of the Company's travel centers offer a unique variety of Southwestern merchandise to the traveling public in the Southwestern United States, primarily New Mexico. 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.

(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 brokered 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 \$114,532 and \$113,748 of direct and indirect costs incurred during pre-sale periods to inventory at January 31, 2012 and January 31, 2011 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.

(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

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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 Transaction Privilege 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 \$1,171,472, \$1,228,404 and \$1,272,839 for fiscal years ended January 31, 2012, 2011 and 2010, respectively.

The Company also collects and remits transaction privilege taxes on sales. Gross receipts taxes of approximately \$716,989, \$721,188 and \$644,434 were collected and remitted for fiscal years ended January 31, 2012, 2011 and 2010, 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.

(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, marketable

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Notes to Financial Statements
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securities, 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 27,008 of its outstanding common shares for fiscal year ended January 31, 2012 at an average price per share of \$1.48, for a total repurchase of approximately \$39,858. The common stock issued and outstanding was reduced by 27,008 shares or \$27 (27,008 shares times the par value of \$0.001), and additional paid in capital was reduced by \$39,831. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet.

The Company repurchased 171,136 of its outstanding common shares for fiscal year ended January 31, 2011 at an average price per share of \$1.08, for a total repurchase of approximately \$185,031. The common stock issued and outstanding was reduced by 171,136 shares or \$171 (171,136 shares times the par value of \$0.001), and additional paid in capital was reduced by \$184,860. The reduction in shares issued and outstanding and additional paid in capital is reflected in the accompanying balance sheet.

There was no issuance of the Company's outstanding common shares for fiscal years ended January 31, 2012, 2011 and 2010, respectively.

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Notes to Financial Statements
January 31, 2012

(n) *Reclassifications*

Certain 2011 and 2010 amounts have been reclassified to conform to 2012 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 balance sheet 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 the Company's retail location located in Edgewood, New Mexico, in the ensuing fiscal year. The assets for sale consist of land, buildings, machinery and equipment, mobile homes and billboards. This location was closed in October 2007.

(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 notes receivable 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 \$96,397, \$74,548 and \$75,977 for fiscal years ended January 31, 2012, 2011 and 2010, 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

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Notes to Financial Statements
January 31, 2012

expense was approximately \$98,085, \$115,667 and \$89,678 for fiscal years ended January 31, 2012, 2011 and 2010, 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 this supplier. The Company's agreement with ExxonMobil does not prohibit it from entering into similar arrangements with other petroleum companies.

On September 1, 2010, the Company renewed its distribution agreement with ExxonMobil. The new agreement has a five-year term expiring August 31, 2015. The terms of the distribution agreement require the Company to purchase five million gallons in the calendar year immediately preceding the expiration date.

All of the Company's Arizona locations are Shell brand 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 agreement allows the Company to purchase fuel 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.

(2) Notes Receivable

Notes receivable as of January 31, 2012 and 2011 consist of the following:

	2012	2011
\$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 \$239 average interest only monthly, \$6,000 principal due the first year and \$10,000 annually for the remaining four years (a)	\$ 2,972	\$ 4,460
	2,972	4,460
Less current portion	(1,488)	(1,488)
	\$ 1,484	\$ 2,972

(a) Collateralized by the property sold. In the event of default, the property reverts back to the Company.

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

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Notes to Financial Statements
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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 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.

Management believes that the note receivable is 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)	2012	2011
Land		\$ 1,999,591	\$ 1,979,591
Buildings and improvements	10 - 40	10,211,079	9,794,472
Machinery and equipment	3 - 10	9,348,489	8,948,918
Autos, trucks and mobile homes	3 - 10	1,938,002	1,877,109
Billboards	15 - 20	2,427,212	2,408,066
Construction in progress		26,112	94,029
		<u>25,950,485</u>	<u>25,102,185</u>
Less accumulated depreciation		(15,150,346)	(14,172,231)
Property and equipment, net		<u>\$ 10,800,139</u>	<u>\$ 10,929,954</u>
Assets held for sale		\$ 1,012,417	\$ 1,025,266
Less accumulated depreciation		(599,039)	(611,763)
Assets held for sale, net		<u>\$ 413,378</u>	<u>\$ 413,503</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.

	2012	2011
Depreciation expense:	<u>\$ 1,033,684</u>	<u>\$ 941,534</u>

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Depreciation expense, including assets under capital lease, was \$1,033,684 and \$941,534 for fiscal years ending January 31, 2012 and 2011, respectively, and was charged to operations.

Gains and losses on sale of property and equipment:

	<u>2012</u>	<u>2011</u>
Land	\$ 8,512	\$ 12,113
Buildings and improvements	—	14,057
Machinery and equipment	3,323	(581)
Autos, trucks and mobile homes	—	9,146
Billboards	—	(155)
	<u>\$ 11,835</u>	<u>\$ 34,580</u>

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

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 \$414,00 and \$471,000 have been reclassified as assets held for sale in the January 31, 2012 and January 31, 2011 balance sheets. The Company continues to list the property for sale. There was no operational activity during fiscal years 2012 and 2011 and therefore no results of operations.

(4) Intangible Assets

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

	<u>2012</u>	<u>2011</u>
Franchise fees	\$ 133,000	\$ 133,000
Payment for franchise fee	10,000	—
Debt issuance costs	48,348	48,348
	191,348	181,348
Less accumulated amortization	<u>(141,444)</u>	<u>(132,417)</u>
	<u>\$ 49,904</u>	<u>\$ 48,931</u>

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

2013	\$	9,862
2014		9,584
2015		8,195
2016		7,060
2017		5,476
Thereafter		9,727
Total	\$	<u>49,904</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 carrying value of this investment in real estate is \$419,389. 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>2012</u>	<u>2011</u>
Due to a bank, maturity November 2017, interest at 5.92%, monthly installments of \$33,625, secured by certain properties	\$ 4,160,024	\$ 4,309,109
Due to a bank, maturity June 2015, interest at 5.45%, monthly installments of \$7,378, secured by one property	<u>1,025,712</u>	<u>1,056,635</u>
	5,185,736	5,365,744
Less current maturities	<u>(195,036)</u>	<u>(184,239)</u>
Long-term debt, less current maturities	<u>\$ 4,990,700</u>	<u>\$ 5,181,505</u>

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

2013	\$	195,036
2014		206,735
2015		219,136
2016		232,282
2017		246,218
Thereafter		4,086,329
Total	\$	<u>5,185,736</u>

At January 31, 2012 and 2011, respectively, the Company was not aware of any non-compliance with the minimum financial ratios or annual debt covenants.

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(7) Capital Lease Obligation

Capital lease obligation consists of the following at January 31:

	2012
Due YESCO LLC, maturity February 2016, interest at 6.8275%, monthly installments of \$5,802.	\$ 243,103
Less current maturities	(54,716)
Capital lease obligation, less current maturities	\$ 188,387

Future maturities of capital lease obligation for the years ending January 31 are as follows:

	Lease obligation	Interest	Total
2012	\$ 51,115	\$ 18,509	\$ 69,624
2013	54,716	14,908	69,624
2014	58,571	11,053	69,624
2015	62,698	6,926	69,624
2016	67,118	2,508	69,626
Total	\$ 294,218	\$ 53,904	\$ 348,122

On June 21, 2010, the Company entered into a capital lease agreement with YESCO LLC for two used 14' x 48' single face LED signs with individual web cams to be installed in Picacho, Arizona. The term of the lease consists of sixty consecutive months commencing on the first day of the month immediately following the installation of the signs. Installation of the signs was completed in February 2011. The Company will pay YESCO LLC \$1,065 as the maintenance component and \$5,802 as the base lease component. The Company will pay YESCO LLC \$1.00 with the final monthly payment at which time YESCO LLC will transfer ownership of the signs to the Company. As part security for its performance, the Company deposited with YESCO LLC the sum of \$38,500. The security deposit has been applied as a capital reduction of the base lease component. The Company will account for the lease in accordance with FASB ASC 840-30.

(8) Income Taxes

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

	Current	Deferred	Total
2012:			
U.S. Federal	\$ (415,600)	\$ 296,100	\$ (119,500)
State	(83,200)	59,300	(23,900)
	\$ (498,800)	\$ 355,400	\$ (143,400)

(Continued)

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2011:				
U.S. Federal	\$	(53,600)	\$	55,200
State		<u>(10,700)</u>		<u>11,000</u>
	\$	<u>(64,300)</u>	\$	<u>66,200</u>
			\$	<u>1,900</u>
2010:				
U.S. Federal	\$	(8,400)	\$	(71,400)
State		<u>(1,700)</u>		<u>(14,300)</u>
	\$	<u>(10,100)</u>	\$	<u>(85,700)</u>
			\$	<u>(95,800)</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>2012</u>	<u>2011</u>	<u>2010</u>
Computed "expected" tax benefit	\$ (137,720)	\$ (11,805)	\$ (95,897)
State income tax benefit, net of federal tax benefit,	(10,076)	(13,498)	(10,662)
Other,	<u>4,396</u>	<u>27,203</u>	<u>10,759</u>
Total	<u>\$ (143,400)</u>	<u>\$ 1,900</u>	<u>\$ (95,800)</u>

For fiscal year ending January 31, 2012, the "expected" tax benefit increased as a result of an operating loss before income tax.

For fiscal year ending January 31, 2011, the other tax increased as a result of permanent timing differences that caused the book loss before taxes to change to book income. Therefore, the "expected" tax benefit and state income tax benefit, net of federal tax benefit, were eliminated; thus the increase in other tax.

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:

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	2012	2011
Deferred tax assets –		
At January 31, 2012 deferred revenue principally due to accrual for financial reporting purposes	\$ 8,265	\$ 12,484
At January 31, 2012, compensated absences, principally due to accrual for financial reporting purposes	31,580	28,971
At January 31, 2012, contributions, principally due to limitation as a result of net operating losses	12,328	9,473
Total gross deferred tax assets	52,173	50,928
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	1,014,135	712,492
Rounding	38	2,736
Total gross deferred liabilities	1,014,173	715,228
Net deferred tax liability	\$ 962,000	\$ 664,300

There was no valuation allowance for deferred tax assets as of January 31, 2012 or 2011. 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.

Total gross deferred liabilities increased as a result of the Company’s election to take the 168 allowance of 100% for assets placed in service after September 8, 2010 and through December 31, 2011 (or December 31, 2012 for assets with longer production lives) as allowed by the 2010 Tax Relief Act.

The amount of unused tax losses available to carry forward totaled approximately \$160,000 at January 31, 2011. The loss carry forward will expire beginning in 2031, 20 years after inception.

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

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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.

(9) 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 \$50,206, \$66,829 and \$51,540 in fiscal 2012, 2011 and 2010, respectively.

(10) 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 \$145,247, \$165,368 and \$227,184 for the years ended January 31, 2012, 2011 and 2010, respectively. The Company also leases land where several of its retail billboards are located and rent expense for these leases was \$203,967, \$196,236 and \$178,503 for the years ended January 31, 2012, 2011 and 2010, 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, 2012. One of the contingent rentals has a fixed annual payment of \$32,000 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. 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:	
2013	\$ 256,316
2014	237,976
2015	205,801
2016	147,376
2017	79,155
Thereafter	<u>1,006,578</u>
Total	<u>\$ 1,933,202</u>

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Required future expenditures include \$200,000 for fuel containment upgrades that began in 2010 and will last through July 2013 due to changes in environmental regulations.

(11) 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.

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.

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, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Certificates of deposit	\$ 900,000	\$ —	\$ —	\$ 900,000
Total assets at fair value	<u>\$ 900,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 900,000</u>
Liabilities				
Total liabilities at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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(12) Subsequent Events

The Company has evaluated events subsequent to January 31, 2012, the balance sheet date, for events that would possibly require adjustment or disclosures in these financial statements, through April 12, 2012, the date that these statements were available to be issued.

(13) Subsequent Pronouncements

In February 2010, the Financial Accounting Standards Board (FASB) issued amended standards regarding subsequent events (Topic 855: Amendments to Certain Recognition and Disclosure Requirements). The Board has clarified that if financial statements have been revised, an entity should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. These new standards are required to be adopted for interim or annual periods ending after June 15, 2010. The Company does not expect these new standards to significantly impact our consolidated financial statements