Ark Restaurants Corp.

1997 ANNUAL REPORT

THE COMPANY

Ark Restaurants Corp. (the “Company”) is a holding company which, through subsidiaries, owns and operates 23 restaurants and manages five restaurants owned by others. Fifteen of the restaurants owned or managed by the Company are located in New York City, four are located in Washington, D.C., three are located in Las Vegas, Nevada (within the New York, New York Hotel & Casino), three are located in Boston, Massachusetts, and one is located in each of Rhinebeck, New York, McLean, Virginia and Islamorada, Florida. At the New York, New York Hotel & Casino, the Company also operates the room service, banquet facilities and employee dining room and a complex of nine smaller eateries.

The Company’s other operations include catering businesses in New York City and Washington, D.C., as well as wholesale and retail bakeries in New York City, a cafe at the Warner Bros. studio store in New York City and corporate dining facilities at Universal Studios, California and in an office building in Jersey City, New Jersey.

The Company will provide without charge a copy of the Company’s Annual Report on Form 10-K for the fiscal year ended September 27, 1997, including financial statements and schedules thereto, to each of the Company’s shareholders of record on February 17, 1998 and each beneficial shareholder on that date, upon receipt of a written request therefor mailed to the Company’s offices, 85 Fifth Avenue, New York, New York 10003, attention: Treasurer.

Dear Shareholder:

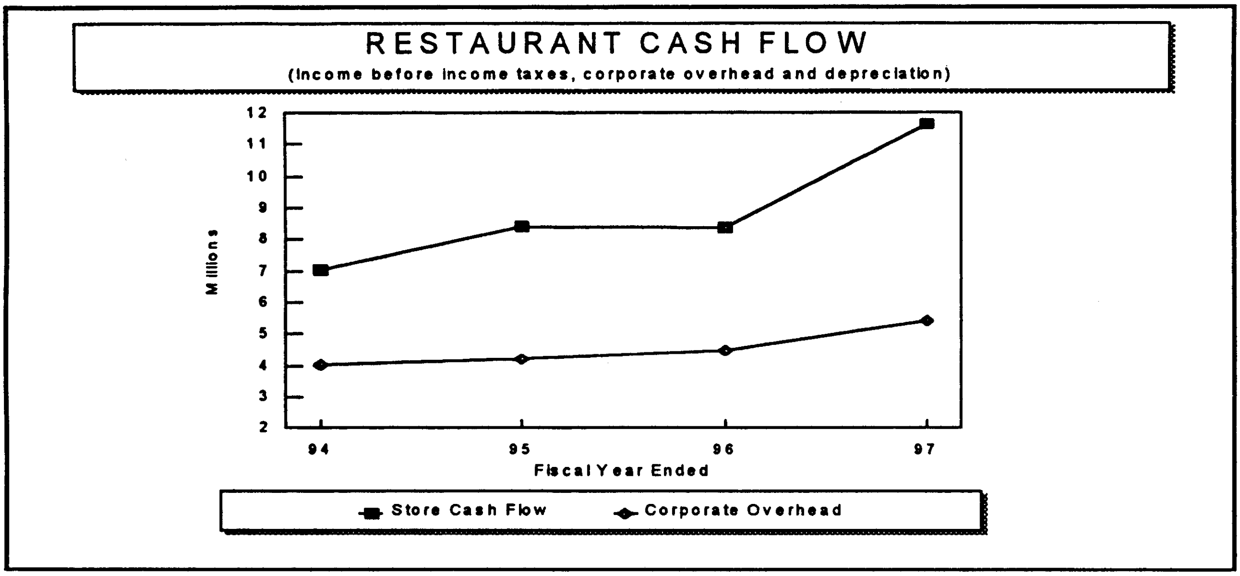
By all measures this past fiscal year was successful. Our largest project, the food and beverage operation at NYNY Hotel & Casino opened on January 2, 1997. Paul Gordon and Executive Chef Damien McEvoy and their staff have been extraordinary in achieving a rational efficiency that provided this Company with positive cash flow in its first 9 months. Because of early operating losses, pre-opening expenses, interest and depreciation charges, the Las Vegas operation showed a small operating loss in fiscal 1997.

The strong results of our non-Las Vegas operations generated the substantial improvement in earnings. In our non-Las Vegas restaurants, we experienced an increase of 2.6% in same store sales, an improvement in operating expense, payroll and cost of goods sold percentages. I have broken out certain historical comparisons for the non-Las Vegas properties, as well as for Las Vegas. In 1998, expenses in Las Vegas are expected to come into line and add significantly to operating income.

	1997	1996	1995
Net Income	$ 1,737,655	$ 788,762	$ 1,121,126
Earnings per Share	.47	.24	.34
Shareholder's Equity	25,888,880	17,804,394	16,706,301
Shareholder's Equity per Share	6.97	5.49	5.24
Return on Equity	9.76%	4.7%	7.3%
Sales at Owned Restaurants (including Las Vegas)	104,326,386	76,795,940	73,026,907
Sales at Owned Restaurants (excluding Las Vegas)	76,048,425	76,795,940	73,026,907
Sales at Las Vegas	28,277,961	N/A	N/A
Increase (Decrease) of Same Store Sales	2.6%	(3.0%)	(0.8%)
Cash Position	722,283	907,003	1,271,284
Long-Term Debt	6,126,797	6,403,866	4,014,162
Capital Lease Obligations	651,945	903,202	1,134,027
Working Capital (Deficit)	(2,373,859)	(1,303,920)	40,996
General and Administrative Expenses	5,445,990	4,474,697	4,223,170
Restaurant Cash Flow (pre-tax, pre-depreciation)	11,648,992	8,381,200	8,410,938
Cost of Sales as a % of sales (all restaurants)	27.3%	27.2%	27.4%
Cost of Sales (Excluding Las Vegas)	26.3%	27.2%	27.4%
Cost of Sales at Las Vegas	29.8%	N/A	N/A
Operating Expenses as a percentage of sales (all restaurants)	65.9%	67.9%	66.7%
Operating Expenses (Excluding Las Vegas)	64.3%	67.9%	66.7%
Operating Expenses at Las Vegas	70.4%	N/A	N/A
Restaurant Payrolls as a percentage of sales (all restaurants)	36.9%	36.1%	35.9%
Restaurant Payrolls (Excluding Las Vegas)	35.0%	36.1%	35.9%
Restaurant Payrolls at Las Vegas	42.1%	N/A	N/A

The increase in shareholders equity included $6,028,000 raised in December 1996 through a private placement of common stock and net income of $1,738,000.

I have charted below restaurant cash flow and corporate overhead for all operations. The idea is to increase store cash flow at an accelerated rate to any increase in corporate overhead. Corporate overhead increased almost $1,000,000 (21.7%) as we put our Las Vegas operation on line. While cash flow from Las Vegas more than covered this $1,000,000 increase, overall cash flow which improved dramatically was penalized by the pre-opening expense and losses of the Las Vegas start-up.



The Company increased sales 35.8% to $104,326,000, nine month sales from Las Vegas operations exceeded $28,000,000 (we must remember that this was achieved in concert with a major public relations effort by NYNY). General and administrative costs as a percentage of sales were 5.2%. If you include managed store sales, which are not included in our consolidated sales, the percentage was 4.6%. We believe this to be efficient.

We continue to transition from an operator of moderately sized neighborhood restaurants to that of an operator of high volume multi-concept food facilities. We intend to sell our smaller less productive operations as opportunities present themselves. These smaller restaurant operations are more vulnerable to competition since the cost of entry is low and the expertise required to operate is modest. With this in mind we have sold Jim McMullen's restaurant on Manhattan's Upper East Side.

As indicated, our larger sites have competitive advantages. There is a natural flow of customers to entertainment sites, public parks, waterfronts and train stations. The scale of our restaurants in these locations requires considerable capital and expertise and therefore we generally operate with less competition and healthy demand/supply ratios.

We have strong management in the cities in which we operate. We want to leverage those management skills by adding additional units in those cities when we see opportunity for significant returns on management time and shareholders capital. We will pursue new markets only if the scale of operations provides us with a strong operating franchise. We have recently purchased The Stage Deli in the Forum Shops at Caesar's Shopping Center in Las Vegas. The location is truly remarkable and we should see a reasonably prompt cash flow contribution. In New York we presently operate Sequoia at the South Street Seaport, and we are scheduled to open a second restaurant at this location in the Spring of 1998. But, most significantly for this current year, we have reached an agreement in principle to enter into a joint venture agreement with Sony Theatres' Loeks Star Partners and Millennium Partners to develop and operate four restaurants containing a total of approximately 50,000 square feet at the Star Southfield Entertainment Center in Southfield, Michigan. There will be no restaurant competition on site. Millennium Partners is a major U.S. Real Estate developer and co-owner with Sony/Star of the Southfield property. Presently this is believed to be the busiest movie theatre complex in the world. Ticket sales on certain days exceed 20,000 guests. The management at Sony/Star & Millennium are wonderful to work with and can only benefit the long term goals of this Company. We expect two restaurants to open in the late summer of 1998, and the other two to open in the next fiscal year.

I always enjoy thanking the people who work with us at our restaurants. I've included a list of our partners, managers, and executive chefs. As you know we have a very strong catering and corporate party business. If you would like information you can contact Adrienne Hara, Sylvia Deliz, or Alexandra Studley at (212) 206-8815. You may also be interested in visiting our website at www.arkrestaurants.com.

Michael Weinstein, President

January 28, 1998

ARK RESTAURANTS

CORPORATE OFFICE
Michael Weinstein, *President*
Andrew Kuruc, *Vice President—Chief Financial Officer*
Vincent Pascal, *Vice President—Operations*
Robert Towers, *Vice President—Chief Operating Officer*
Paul Gordon, *Vice President—Director of Las Vegas Operations*
Nancy Alvarez, *Assistant Controller*
Beth Bardin, *Assistant to the President*
Heather Cook, *Marketing Assistant*
Sylvia Deliz, *Corporate Sales Assistant*
Irma Friedmann, *Tour and Travel Sales*
Michael Grossbard, *Director of Beverage Purchasing*
Adrienne Hara, *Director of Corporate Sales*
John Oldweiler, *Director of Purchasing*
Robert Ortiz, *Administrative Assistant*
Donna Palamaro, *Director of Operations*
Pam Press, *Tour and Travel Sales*
Gini Smythe, *Projects Manager*
Pei Ming Tong, *Executive Assistant*
Joe Vazquez, *Facilities Management*

JOINT VENTURE PARTNERS
Larry Forgione, *An American Place and Beekman 1766 Tavern, The Grill Room*
Eberhard Müller, *Lutèce*
Barbara Smith, *B. Smith's, New York and Washington, D.C.*
André Soltner, *Lutèce*

EXECUTIVE CHEFS
Mike Kiernan
Marc Meyer
Damien McEvoy
Chun Liao

RESTAURANT GENERAL MANAGERS

Malik Ali, *America, Virginia*
Christine Allee, *Granny's Kitchen at Warner Bros.*
Marc Campbell, *Louisiana Community Bar & Grill*
Liz Caro, *Metropolitan Cafe*
Helen Claydon-Way, *B. Smith's, New York*
Deidre Harris, *Perretti Italian Cafe*
Kevin Dwyer, *An American Place*
Kari Edgecomb, *America, Washington, D.C.*
Tom Ferretti, *America*
Vicki Friedman, *Columbus Bakery*
Mark Gentile, *Gallagher's, Las Vegas*
Beverly Hanapole, *The Grill Room*
Colleen Hennigan, *Sequoia, D.C.*
Halbert Hernandez, *Canyon Road*
Jennifer Jordan, *El Rio Grande*
Kenneth Laurents, *Canyon Road*
Debra Lomurno, *Sequoia, New York*
Tracy Lubin, *Marketplace Cafe, Oak Bar & Grill and Brewskeller Pub*
John Maloughney, *Lor-e-Lei*
Bob Marcelli, *Market at Newport*
Pam Mason, *Ernie's*
Danny Mock, *Gonzalez y Gonzalez, Las Vegas*
Edgar Balagot, *Woody's*
Donna Ricci, *Bryant Park Grill*
Millie Stewart, *America, Las Vegas*
Arvy Dumbrys, *Village Streets, Las Vegas*
Tom Townsend, *B. Smith's, Washington, D.C.*
Ridgely Trufant, *Beekman 1766 Tavern*
Marty Weinstein, *Louisiana Community Bar & Grill*
Ana Zaldarriaga, *Gonzalez y Gonzalez*

RESTAURANT CHEFS

Charles Brucculeri, *Bryant Park Grill*
Chan May Chung, *Ernie's*
Henry Chung, *B. Smith's, New York*
Armando Cortez, *Perretti Italian Cafe*
Robert DeFazio, *America, Las Vegas*
John Dornback, *Bryant Park Grill*
Arvy Dumbrys, *Village Streets, Las Vegas*
Carlos Garcia, *Sequoia, New York*
Salvador Garcia, *Louisiana Community Bar & Grill*
Glenn Harris, *Metropolitan Cafe & Columbus Bakery II*
James Oakley, *B. Smith's, Washington, D.C.*
Raoul Juarez, *El Rio Grande*
Jeff Leake, *Market at Newport*
Alfredo Leal, *Granny's Kitchen at Warner Bros.*
Teow Chien Lin, *America, Virginia*
Chun Liao, *Sequoia, Washington, D.C*
Kok Mun Ma, *Woody's*
David Mansen, *Lor-e-lei*
James Mohn, *Marketplace Cafe*
Tony Nogales, *Beekman 1766 Tavern*
Michael Parker, *Gallagher's, Las Vegas*
Michael Foo, *America, Washington, D.C.*
Ruperto Ramirez, *Canyon Road Grill*
Sergio Salazar, *Gonzalez y Gonzalez, Las Vegas*
Mariano Veliz, *Gonzalez y Gonzalez*
Gadi Weinreich, *America, New York*

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth certain financial data for the fiscal years ended 1993 through 1997. This information should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto appearing at page F-1.

	Year Ended				
	September 27, 1997	September 28, 1996	September 30, 1995	October 1, 1994	October 2, 1993
OPERATING DATA:					
Net sales	$104,326,386	$76,795,940	$73,026,907	$60,404,339	$55,973,227
Gross restaurant profit	75,874,499	55,934,475	53,001,963	43,562,653	40,364,491
Operating income	2,785,713	497,996	960,794	840,452	3,384,230
Other income, net	96,550	743,615	937,763	507,200	268,606
Income before provision for income taxes and extraordinary item	2,882,263	1,241,611	1,898,557	1,347,652	3,652,836
Income before extraordinary item	1,737,655	788,762	1,121,126	643,032	1,817,637
NET INCOME	1,737,655	788,762	1,121,126	1,150,802	1,936,737
Income per share before extraordinary item and cumulative effect of accounting change	$ 0.47	$ 0.24	$ 0.34	$ 0.20	$ 0.57
NET INCOME PER SHARE	$ 0.47	$ 0.24	$ 0.34	$ 0.36	$ 0.61
Weighted average number of shares used in computation	3,716,020	3,241,394	3,251,336	3,225,680	3,198,429
BALANCE SHEET DATA (end of period):					
Total assets	41,268,098	32,379,479	28,541,920	21,768,747	19,037,744
Working capital (deficit)	(2,373,859)	(1,303,920)	40,996	1,517,601	490,956
Long-term debt	6,126,797	6,403,866	4,014,162	761,386	165,728
Shareholders' equity	25,888,880	17,804,394	16,706,301	15,210,202	13,908,116
Shareholders' equity per share	6.97	5.49	5.24	4.88	4.51
Facilities in operation at end of year, including managed	46	32	32	27	26

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Accounting Period

The Company's fiscal year ends on the Saturday nearest September 30. The fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995 included 52 weeks.

Net Sales

Net sales at restaurants owned by the Company increased by 35.8% from fiscal 1996 to fiscal 1997 and by 5.2% from fiscal 1995 to fiscal 1996. The increase in fiscal 1997 was primarily due to sales from the food and beverage operations in the New York New York Hotel & Casino resort in Las Vegas ("the Las Vegas facilities") which opened in January 1997. At the Las Vegas facilities the Company operates a 450 seat, twenty four hour a day restaurant (America); a 160 seat steakhouse restaurant (Gallagher's); a 200 seat Mexican restaurant (Gonzalez y Gonzalez); the resort's room service, banquet facilities and an employee dining facility. The Company also operates a complex of nine smaller eateries (Village Eateries) in the resort which simulate the experience of walking through New York City's Little Italy and Greenwich Village. Same store sales in fiscal 1997 increased by 2.6% principally due to increased customer counts.

The increase in fiscal 1996 was primarily due to the first full operating year of one of the Company's largest restaurants which opened in fiscal 1995 (Bryant Park Grill & Cafe) and a full operating year of a restaurant which was closed for part of fiscal 1995 (Ernie's), offset in part by the decrease in sales resulting from a restaurant which the Company sold in fiscal 1996 (Whale's Tail) and by declining net sales at four restaurants classified as restaurants held for sale (of which three were sold in the first quarter of fiscal 1997—Museum Cafe, Rodeo Bar and Grill, and Mackinac Bar and Grill). Same store sales in fiscal 1996 decreased by 3.0% principally due to decreased customer counts.

Costs and Expenses

The Company's cost of sales consists principally of food and beverage costs at restaurants owned by the Company. Cost of sales as a percentage of net sales was 27.3% in fiscal 1997, 27.2% in fiscal 1996 and 27.4% in fiscal 1995. Cost of sales in fiscal 1997 were impacted by higher cost of sales experienced during the early operating period at the Company's Las Vegas facilities. The Company expects that cost of sales will improve in the upcoming fiscal year.

Operating expenses of the Company, consisting of restaurant payroll, occupancy and other expenses at restaurants owned by the Company, as a percentage of net sales, were 65.9% in fiscal 1997, 67.9% in fiscal 1996 and 66.7% in fiscal 1995. This decrease in operating expenses in fiscal 1997 as compared to fiscal 1996 was principally due to benefits achieved from the sale of three restaurants in fiscal 1997 which had operated at a loss in fiscal 1996 and to a lesser extent a benefit from the 2.6% increase in same store sales. Restaurant payroll was 36.9% in fiscal 1997, 36.1% in fiscal 1996 and 35.9% in fiscal 1995. This increase is principally due to higher payroll costs at the Company's Las Vegas facilities as compared to the Company's other operations and to the lesser extent from increases in minimum wage rates. Payroll expenses in fiscal 1995 were impacted by costs associated with new restaurant openings and to a special charge related to the settlement of a claim at one of the Company's New York restaurants alleging violations of federal and state wage and hour laws. Occupancy expenses (consisting of rent, rent taxes, real estate taxes, insurance and utility costs) as a percentage of net sales were 12.5% in fiscal 1997, 12.8% in fiscal 1996 and 12.5% in fiscal 1995.

The Company incurred approximately $2,000,000 of pre-opening expenses and early operating losses at newly opened restaurants in fiscal 1997, $200,000 in fiscal 1996 and $950,000 in fiscal 1995. The fiscal 1997 expenses and losses were from the opening of the Company's Las Vegas facilities. The Company typically incurs significant pre-opening expenses in connection with its new restaurants which are expensed as incurred. Furthermore, it is not uncommon that such restaurants experience operating losses during the early months of operation.

General and administrative expenses, as a percentage of net sales, were 5.2% in fiscal 1997 as compared to 5.8% in both fiscal 1996 and fiscal 1995. The decrease in fiscal 1997 was primarily due to the fact that the Company was able to manage the 35.8% increase in net sales with a lower percentage increase in general and administrative expenses. If net sales at managed restaurants were included in consolidated net sales, general and administrative expenses as a percentage of net sales would have been 4.6% in fiscal 1997 and 5.0% in both fiscal 1996 and fiscal 1995.

As of September 27, 1997 the Company managed five restaurants owned by others (El Rio Grande and Woody's in Manhattan, the Marketplace Cafe, Oar Bar & Grill, and the Brewskeller Pub in Boston, Massachusetts), a cafe in a store in New York City (Warner Bros.), corporate dining facilities in Universal City, California (Universal Studios) and corporate dining facilities in an office building in Jersey City, New Jersey (Market at Newport). Net sales of these restaurant facilities, which are not included in consolidated net sales were $14,151,000 in fiscal 1997, $12,802,000 in fiscal 1996 and $10,839,000 in fiscal 1995.

Interest expense was $755,000 in fiscal 1997, $426,000 in fiscal 1996 and $359,00 in fiscal 1995. The increase in fiscal 1997 from 1996 is principally due to borrowings to finance the construction costs and working capital requirements of the Las Vegas restaurant facilities which opened in January 1997.

Interest income was $72,000 in fiscal 1997, $87,000 in fiscal 1996 and $78,000 in fiscal 1995.

Other income, which generally consists of purchasing service fees, and the sale of logo merchandise at various restaurants, was $780,000 in fiscal 1997, $1,083,000 in fiscal 1996 and $1,219,000 in fiscal 1995. A significant portion of the amounts received in all three fiscal years was principally due to amounts the Company received from a third party due to the temporary closing in fiscal 1994 and fiscal 1995 of a restaurant (Ernie's).

Income Taxes

The provision for income taxes reflects Federal income taxes calculated on a consolidated basis and state and local income taxes calculated by each New York subsidiary on a non consolidated basis. Most of the restaurants owned or managed by the Company are owned or managed by a separate subsidiary.

For state and local income tax purposes, the losses incurred by a subsidiary may only be used to offset that subsidiary's income with the exception of the restaurants which operate in the District of Columbia. Accordingly, the Company's overall effective tax rate has varied depending on the level of losses incurred at individual subsidiaries. The Company's overall effective tax rate was 40% in fiscal 1997, 37% in fiscal 1996 and 40% in fiscal 1995.

The Company's overall effective tax rate in the future will be affected by factors such as the level of losses incurred at the Company's New York facilities (which cannot be consolidated for state and local tax purposes), pre-tax income earned outside of New York City (Nevada has no state income tax and other states in which the Company operate have income tax rates substantially lower in comparison to New York) and the utilization of state and local net operating loss carry forwards. In order to more effectively utilize tax loss carry forwards at restaurants that were unprofitable, the Company has merged certain profitable subsidiaries with certain loss subsidiaries.

As a result of the enactment of the Revenue Reconciliation Act of 1993, the Company is entitled, commencing January 1, 1994, to a tax credit based on the amount of FICA taxes paid by the Company with respect to the tip income of restaurant service personnel. The net benefit to the Company was $373,000 in fiscal 1997, $349,000 in fiscal 1996 and $299,000 in fiscal 1995.

The Internal Revenue Service is currently examining the Company's Federal income tax returns for the fiscal years ended September 28, 1991 through October 1, 1994 and the Internal Revenue Service has proposed certain adjustments, all of which are being contested by the Company. The Company does not believe that any adjustments resulting from such examination will have a material effect on the Company's financial condition.

Liquidity and Sources of Capital

The Company's primary source of capital is cash provided by operations and funds available from the revolving credit agreement with its main bank. The Company utilizes capital primarily to fund the cost of developing and opening new restaurants and acquiring existing restaurants.

The net cash used in investing activities in fiscal 1997 ($10,445,000), fiscal 1996 ($6,693,000) and fiscal 1995 ($9,096,000) was used principally for the Company's continued investment in fixed assets associated with constructing new restaurants and acquiring existing restaurants. In fiscal 1997 the Company finished and opened the Las Vegas restaurant facilities which had also been in construction since fiscal 1996. In fiscal 1995 the Company opened a 1,200 seat restaurant in Bryant Park, a nine-acre park behind the New York City Public Library (Bryant Park Grill & Cafe) and opened another restaurant in Union Station in Washington, DC (B. Smith's, the Company's second such restaurant). The Company also acquired two restaurants—a renowned French restaurant in New York City (Lutece) and a casual restaurant and bar in the Florida Keys (Lorelei Restaurant and Cabana Bar).

The net cash provided by financing activities in fiscal 1997 was principally due to proceeds ($6,028,000) of a private placement of 551,454 shares of the Company's common stock. In fiscal 1996 net cash provided by financing activities was principally from the Company's borrowings on its main credit facility exceeding repayments on such facility. In fiscal 1995 net cash provided by financing activities was principally from the Company's borrowings on its main credit facility exceeding repayments on such facility and from the sale leaseback of various kitchen equipment in a restaurant opened in New York City (Bryant Park Grill & Cafe).

At September 27, 1997 the Company had a working capital deficit of $2,374,000 as compared to working capital deficit of $1,304,000 at September 28, 1996. The significant decrease in working capital in fiscal 1997 from fiscal 1996 was principally due to cash expended for the construction of the Las Vegas facilities. The restaurant business does not require the maintenance of significant inventories or receivables. Thus the Company is able to operate with negative working capital.

The Company's Revolving Credit and Term Loan Facility with its main bank includes a $7,000,000 facility for use in construction of and as working capital for the Las Vegas restaurant facilities (the "Las Vegas Facility") and a $5,000,000 facility for working capital purposes at the Company's other restaurants (the "New York Facility"). At September 27, 1997 the Company had $2,750,000 outstanding on the Las Vegas Facility. Any outstanding amount on the Las Vegas Facility in March 1998 may be converted into a two year term loan. The Company may not borrow any further amounts on the Las Vegas Facility as per the Agreement. At September 27, 1997, the Company had no borrowings on the New York Facility. The Company is permitted to borrow up to $5,000,000 on this facility until March 1998 and any outstanding amount in March 1998 may be converted into a two year term loan.

The Company also has a four year $1,300,000 Letter of Credit Facility for use in lieu of lease security deposits. At September 27, 1997 the Company had delivered $694,000 in irrevocable letters of credit on this facility.

In December 1996, the Company raised net proceeds of $6,028,000 through a private placement of 551,454 shares of its common stock at $11 per share. The proceeds were used to repay a portion of the Company's outstanding borrowings on its Revolving Credit and Term Loan Facility and for the payment of capital expenditures on the Las Vegas facilities.

The amount of indebtedness that may be incurred by the Company is limited by the revolving credit agreement with its main bank. Certain provisions of the agreement may impair the Company's ability to borrow funds.

Restaurant Expansion

The Company recently signed a lease for a new facility in the South Street Seaport in downtown New York City where the Company intends to open a 200 seat Southwestern style bar and restaurant. The Company does not anticipate significant capital expenditures in connection with the opening of this restaurant for the site was formerly occupied by a restaurant and the Company is receiving a $500,000 construction allowance from the landlord.

Although the Company is not currently committed to any other projects, the Company is exploring additional opportunities for expansion of its business. The Company expects to fund its projects through cash from operations and existing credit facilities. Additional expansion may require additional external financing.

Recent Developments

In the first quarter of fiscal 1998, the Company sold a restaurant located in New York City (Jim McMullen) for $1,750,000. The restaurant was operating at a loss at the time of its sale. The Company received $200,000 in cash on closing; the balance of $1,550,000 was financed by notes payable with interest at 7.5% per annum due in monthly installments through December 1, 2008, at which time the outstanding balance of $519,000 matures. The Company expects to record a gain of approximately $185,000 in fiscal 1998 and additional deferred gains totalling approximately $1,000,000 could be recognized in future periods as the notes are collected. The Company deferred recognition of the gain on the sale due to uncertainty as to the ultimate collectibility of the outstanding notes.

The Financial Accounting Standards Board has recently issued several new accounting pronouncements. Statement No. 128, "Earnings per Share" established standards for computing and presenting earnings per share, and is effective for financial statements for both interim and annual periods ending after December 15, 1997. Statement No. 129, "Disclosure of Information about Capital Structure" establishes standards for disclosing information about an entity's capital structure, and is effective for financial statements for periods ending after December 15, 1997. Statement No. 130, "Reporting Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components, and is effective for fiscal years beginning after December 15, 1997. Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" establishes standards for the way that public business enterprises report selected information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers, and is effective for financial statements for periods beginning after December 15, 1997. The effect of the adoption of the Statements on the Company's consolidated financial statements is not expected to be material.

Market Information

The Company's Common Stock, $.01 par value, is traded in the over-the-counter market on the Nasdaq National Market ("Nasdaq") under the symbol "ARKR". The high and low sale prices for the Common Stock from September 25, 1995 through September 27, 1997 are as follows:

	High	Low
Calendar 1995		
Fourth Quarter	10	7¼
Calendar 1996		
First Quarter	8	6
Second Quarter	11½	7¼
Third Quarter	10	7¾
Fourth Quarter	12¾	9¼
Calendar 1997		
First Quarter	15¼	10¼
Second Quarter	11¼	7⅝
Third Quarter	11½	8¼

Dividends

The Company has not paid any cash dividends since its inception and does not intend to pay dividends in the foreseeable future. Under the terms of the Second Amended and Restated Credit Agreement between the Company its main lender, the company may pay cash dividends and redeem shares of Common Stock in any fiscal year only to the extent of an aggregate amount equal to 20% of the Company's consolidated operating cash flow for such fiscal year.

Number of Shareholders

As of February 17, 1997, there were approximately 93 holders of record of the Company's Common Stock.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
ARK RESTAURANT CORP.

We have audited the accompanying consolidated balance sheets of Ark Restaurants Corp. and its subsidiaries as of September 27, 1997 and September 28, 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended September 27, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ark Restaurants Corp. and subsidiaries as of September 27, 1997 and September 28, 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended September 27, 1997, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE, LLP
New York, New York
November 21, 1997

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 27, 1997	September 28, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 772,283	$ 907,003
Accounts receivable	1,975,434	1,462,499
Current portion of long-term receivables (Note 2)	227,402	93,951
Inventories (Note 3)	2,044,689	1,168,384
Deferred income taxes (Note 12)	915,534	631,027
Prepaid expenses and other current assets	432,816	545,777
Total current assets	6,368,158	4,808,641
LONG-TERM RECEIVABLES (Note 2)	971,023	360,344
ASSETS HELD FOR SALE (Note 3)	1,892,639	2,614,090
FIXED ASSETS—At cost (Notes 4 and 7);		
Leasehold improvements	22,526,150	13,019,524
Furniture, fixtures and equipment	18,387,492	11,113,933
Leasehold improvements in progress	50,053	6,289,726
	40,963,695	30,423,183
Less accumulated depreciation and amortization	14,037,200	11,325,141
	26,926,495	19,098,042
INTANGIBLE ASSETS—Net (Note 4)	3,346,176	3,885,095
DEFERRED INCOME TAXES (Note 12)	1,081,006	933,547
OTHER ASSETS (Note 5)	682,601	679,720
	$41,268,098	$32,379,479
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable—trade	$ 3,560,250	$ 2,365,939
Accrued expenses and other current liabilities (Note 6)	3,098,356	3,030,684
Current maturities of capital lease obligations (Note 8)	245,412	240,855
Current maturities of long-term debt (Note 7)	1,424,129	150,689
Accrued income taxes (Note 12)	413,870	324,394
Total current liabilities	8,742,017	6,112,561
OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	406,533	662,347
LONG-TERM DEBT—Net of current maturities (Notes 4 and 7)	4,702,668	6,253,177
OPERATING LEASE DEFERRED CREDIT (Note 8)	1,528,000	1,547,000
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
SHAREHOLDERS' EQUITY (Notes 7, 9 and 10):		
Common stock, par value $.01 per share—authorized, 10,000,000 shares; issued, 5,177,836 and 4,608,882 shares, respectively	51,779	46,089
Additional paid-in capital	14,131,383	7,790,242
Retained earnings	12,953,117	11,215,462
	27,136,279	19,051,793
Less treasury stock, 1,345,337 shares	1,247,399	1,247,399
	25,888,880	17,804,394
	$41,268,098	$32,379,479

See notes to consolidated financial statements

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
NET SALES	$104,326,386	$76,795,940	$73,026,907
COST OF SALES	28,451,887	20,861,465	20,024,944
Gross restaurant profit	75,874,499	55,934,475	53,001,963
MANAGEMENT FEE INCOME (Note 11)	1,153,264	1,204,808	925,332
	77,027,763	57,139,283	53,927,295
OPERATING EXPENSES:			
Payroll and payroll benefits	38,520,986	27,740,390	26,191,191
Occupancy	13,031,811	9,843,110	9,035,078
Depreciation	3,320,739	2,664,892	2,289,211
Other	13,922,524	11,918,198	11,227,851
	68,796,060	52,166,590	48,743,331
GENERAL AND ADMINISTRATIVE EXPENSES	5,445,990	4,474,697	4,223,170
	74,242,050	56,641,287	52,966,501
OPERATING INCOME	2,785,713	497,996	960,794
OTHER EXPENSE (INCOME):			
Interest expense (Note 7)	755,383	425,810	359,159
Interest income	(71,652)	(86,708)	(77,856)
Other income (Note 13)	(780,281)	(1,082,717)	(1,219,066)
	(96,550)	(743,615)	(937,763)
INCOME BEFORE PROVISION FOR INCOME TAXES	2,882,263	1,241,611	1,898,557
PROVISION FOR INCOME TAXES (Note 12)	1,144,608	452,849	777,431
NET INCOME	$ 1,737,655	$ 788,762	$ 1,121,126
INCOME PER SHARE:			
NET INCOME	$.47	$.24	$.34
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATIONS	3,716,020	3,241,394	3,251,336

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 27, 1997, SEPTEMBER 28, 1996, AND SEPTEMBER 30, 1995

	Common Stock		Additional Paid-in	Retained	Treasury	Total Shareholders'
	Shares	Amount	Capital	Earnings	Stock	Equity
BALANCE, OCTOBER 1, 1994	4,461,832	$44,618	$ 7,107,409	$ 9,305,574	$(1,247,399)	$15,210,202
Exercise of stock options	74,550	746	182,111	—	—	182,857
Tax benefit on exercise of options	—	—	192,116	—	—	192,116
Net income	—	—	—	1,121,126	—	1,121,126
BALANCE, SEPTEMBER 30, 1995	4,536,382	45,364	7,481,636	10,426,700	(1,247,399)	16,706,301
Exercise of stock options	72,500	725	183,650	—	—	184,375
Tax benefit on exercise of options	—	—	124,956	—	—	124,956
Net income	—	—	—	788,762	—	788,762
BALANCE, SEPTEMBER 28, 1996	4,608,882	46,089	7,790,242	11,215,462	(1,247,399)	17,804,394
Common stock private placement	551,454	5,515	6,023,111	—	—	6,028,626
Issuance of warrants	—	—	175,000	—	—	175,000
Exercise of stock options	17,500	175	85,450	—	—	85,625
Tax benefit on exercise of options	—	—	57,580	—	—	57,580
Net income	—	—	—	1,737,655	—	1,737,655
BALANCE, SEPTEMBER 27, 1997	5,177,836	$51,779	$14,131,383	$12,953,117	$(1,247,399)	$25,888,880

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 1,737,655	$ 788,762	$ 1,121,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	3,047,422	2,324,304	1,988,968
Amortization of intangibles	445,123	492,207	450,787
(Gain) loss on sale of restaurants	(229,000)	297,000	—
Provision for uncollectible long-term receivables	—	96,000	100,000
Operating lease deferred credit	(19,000)	10,000	151,000
Deferred income taxes	(431,966)	(692,492)	(302,100)
Changes in assets and liabilities:			
Increase in accounts receivable	(512,935)	(184,672)	(188,651)
Increase in inventories	(890,567)	(65,597)	(239,205)
Decrease (increase) in prepaid expenses and other current assets	112,961	603,675	(368,292)
(Increase) decrease in other assets, net	60,008	(232,205)	139,956
Increase in accounts payable—trade	1,194,311	330,167	229,830
Increase in accrued income taxes	89,476	59,025	238,211
Increase in accrued expenses and other current liabilities	13,672	181,392	397,528
Net cash provided by operating activities	4,617,160	4,007,566	3,719,158
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(11,006,116)	(6,833,018)	(6,610,540)
Additions to intangible assets	(11,639)	(110,849)	(145,872)
Issuance of demand notes and long-term receivables	—	(63,092)	(224,913)
Payments received on demand notes and long-term receivables	264,370	171,651	220,772
Restaurant sales	308,000	250,000	—
Restaurant acquisitions	—	(108,000)	(2,335,712)
Net cash used in investing activities	(10,445,385)	(6,693,308)	(9,096,265)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payment on long-term debt	(10,277,900)	(1,857,045)	(1,847,224)
Issuance of long-term debt	10,000,831	4,100,000	4,500,000
Exercise of stock options	143,205	309,331	374,973
Principal payment on capital lease obligations	(251,257)	(230,825)	(117,218)
Proceeds from sale lease back	—	—	824,947
Proceeds from common stock private placement	6,028,626	—	—
Net cash provided by financing activities	5,643,505	2,321,461	3,735,478
DECREASE IN CASH AND CASH EQUIVALENTS	(184,720)	(364,281)	(1,641,629)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	907,003	1,271,284	2,912,913
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 722,283	$ 907,003	$ 1,271,284
SUPPLEMENTAL INFORMATION:			
Cash payments for the following were:			
Interest	$ 931,383	$ 515,810	$ 422,159
Income taxes	$ 1,502,643	$ 966,434	$ 649,689

See notes to consolidated financial statements.

1. Business and Summary of Significant Accounting Policies

Ark Restaurants Corp. and subsidiaries (the "Company") own and operate 23 restaurants, and manage 5 restaurants, of which 15 are in New York City, 4 in Washington, D.C., three in Las Vegas, Nevada (within the New York New York Hotel and Casino Resort), three in Boston, Massachusetts and one each in Rhinebeck, New York; McLean, Virginia; and Islamorada, Florida. Along with the three restaurants within the New York New York Hotel & Casino Resort, the Company also operates the Resort's room service, banquet facilities, employee dining room and a complex of nine smaller cafes and food operations.

The Company's other operations include catering businesses in New York City and Washington, D.C. as well as wholesale and retail bakeries in New York City, a cafe at the Warner Bros. store in New York City and corporate dining facilities at Universal Studios, California and in an office building in Jersey City, New Jersey.

Accounting Period. The Company's fiscal year ends on the Saturday nearest September 30. The fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995 included 52 weeks.

Significant Estimates. In the process of preparing its consolidated financial statements, the Company estimates the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. The primary estimates underlying the Company's financial statements include allowances for potential bad debts on accounts and notes receivable, the useful lives and recoverability of its assets, such as property and intangibles, fair values of financial instruments, the realizable value of its tax assets and other matters. Management bases its estimates on certain assumptions, which they believe are reasonable in the circumstances, and while actual results could differ from those estimates, management does not believe that any change in those assumptions in the near term would have a material effect on the Company's consolidated financial position or the results of operation.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in affiliated companies where the Company is able to exercise significant influence over operating and financial policies even though the Company holds 50% or less of the voting stock, are accounted for under the equity method.

Cash Equivalents. Cash equivalents include instruments with original maturities of three months or less.

Accounts Receivable. Included in accounts receivable are amounts due from employees of $719,871 and $620,950 for fiscal years ended September 27, 1997 and September 28, 1996. Such amounts, which are due on demand, are principally due to various employees exercising stock options in accordance with the Company's Stock Option Plan (See Note 10).

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market, and consist of food and beverages, merchandise for sale and other supplies.

Fixed Assets. Leasehold improvements and furniture, fixtures and equipment are stated at cost. Depreciation of furniture, fixtures and equipment (including equipment under capital leases) is computed using the straight-line method over the estimated useful lives of the respective assets (7 years). Amortization of improvements to leased properties is computed using the straight-line method based upon the initial term of the applicable lease or the estimated useful life of the improvements, whichever is less, and ranges from 5 to 35 years.

Certain costs incurred during the construction period of restaurants, including rental of premises, training and payroll, are expensed as incurred.

Intangible and Other Assets. Costs associated with acquiring leases and subleases, principally purchased leasehold rights, have been capitalized and are being amortized on the straight-line method based upon the initial terms of the applicable lease agreements, which range from 10 to 21 years.

Goodwill recorded in connection with the acquisition of shares of the Company's common stock from a former shareholder, as discussed in Note 4, is being amortized over a period of 40 years. Goodwill arising from restaurant acquisitions is being amortized over a period of 15 years.

Legal and other costs incurred to organize restaurant corporations are capitalized as organization costs and are amortized over a period of 5 years.

Covenants not to compete arising from restaurant acquisitions are amortized over the contractual period of 5 years.

Certain legal and bank commitment fees incurred in connection with the Company's Revolving Credit and Term Loan Facility were capitalized as deferred financing fees and are being amortized over four years, the term of the facility.

The Company periodically assesses the recoverability of intangible assets on an asset by asset basis using the projected undiscounted operating income.

Operating Lease Deferred Credit. Several of the Company's operating leases contain predetermined increases in the rentals payable during the term of such leases. For these leases, the aggregate rental expense over the lease term is recognized on a straight-line basis over the lease term. The excess of the expense charged to operations in any year and amounts payable under the leases during that year are recorded as a deferred credit. The deferred credit subsequently reverses over the lease term (Note 8).

Occupancy Expenses. Occupancy expenses include rent, rent taxes, real estate taxes, insurance and utility costs.

Income Per Share of Common Stock. Per share data is based upon the weighted average number of shares of common stock and common stock equivalents outstanding during each year. Common stock equivalents consist of dilutive stock options. Fully dilutive income per share of common stock is not shown for the effect is not material.

Impact of Recently Issued Accounting Standards. The Financial Accounting Standards Board has issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for the Impairment of Long-Lived Assets to Be Disposed of" ("SFAS 121"), which requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This Statement was adopted by the Company as of September 29, 1996. The effect of the adoption of SFAS 121 on the Company's consolidated financial statements was not material.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. Under the provisions of SFAS No. 123, effective for the fiscal year beginning September 29, 1996, the Company may either adopt the new fair value-based accounting method or continue the intrinsic value-based method for employee stock-based compensation and provide pro forma disclosure of net income and earnings per share as if the accounting provisions of SFAS No. 123 had been adopted. The Company adopted only the disclosure requirements of SFAS No. 123. The Company generally does not grant options to outsiders; accordingly the adoption of SFAS No. 123 did not have a material effect on the Company's consolidated net earnings or cash flows.

Future Impact of Recently Issued Accounting Standards. The Financial Accounting Standards Board has recently issued several new accounting pronouncements. Statement No. 128, "Earnings per Share" established standards for computing and presenting earnings per share, and is effective for financial statements for both interim and annual periods ending after December 15, 1997. Statement No. 129, "Disclosure of Information about Capital Structure" establishes standards for disclosing information about an entity's capital structure, and is effective for financial statements for periods ending after December 15, 1997. Statement No. 130, "Reporting Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components, and is effective for fiscal years beginning after December 15, 1997. Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers, and is effective for financial statements for periods beginning after December 15, 1997. The effect of the adoption of the Statements on the Company's consolidated financial statements is not expected to be material.

Reclassifications. Certain reclassifications have been made to the 1996 and 1995 financial statements to conform to the 1997 presentation.

2. Long-Term Receivables

Long-term receivables consist of the following:

	September 27, 1997	September 28, 1996
Note receivable secured by fixed assets and lease at a restaurant sold by the Company, at 8% interest; due in monthly installments through December 2006(a)	$ 687,497	$ —
Note receivable secured by fixed assets and lease at a restaurant sold by the Company, at 7.5% interest; due in monthly installments through March 2002(b)	190,798	—
Advances for construction and working capital, at one of the Company's managed locations, at 15% interest; due in monthly installments through December 2000	225,983	270,829
Advances for construction, at one of the Company's managed locations, at prime plus 1%, due in monthly installments through December 1999	59,632	79,521
Note receivable, secured by personal guarantees of officers of a managed restaurant and fixed assets at that location, at 15% interest; due in monthly installments, through September 2000	79,118	98,548
Other	5,397	5,397
	1,248,425	454,295
Less current portion	277,402	93,951
	$ 971,023	$360,344

(a) In December 1996, the Company sold a restaurant for $900,000. Cash of $50,000 was received on sale and the balance is due in installments through December 2006. The Company provided an estimated loss on disposal of $200,000 in the fiscal year ended September 28, 1996 for this disposal.

(b) In October 1996, the company sold a restaurant for $258,500. Cash of $50,000 was received on sale and the balance is due in installments through March 2002. The Company recognized a gain of $134,000 on this sale.

The carrying value of the Company's long-term receivables approximates its current aggregate fair value.

3. Assets Held for Sale

At September 27, 1997 the Company was actively pursuing the sale of two restaurants and, accordingly, reclassified the net fixed assets ($1,669,251), net intangible assets ($180,619) and inventories ($42,769) as assets held for sale. (See Note 15.)

At September 28, 1996, the Company was actively pursuing the sale of four restaurants and, accordingly, reclassified the net fixed assets ($2,248,231), net intangible assets ($503,884) and inventories ($61,975) as assets held for sale. The Company sold three of these restaurants during the fiscal year ended September 27, 1997 for an aggregate selling price of $1,366,000, of which an aggregate of $308,000 was paid in cash and the balance of $1,058,000 is payable in various periods through December 2006. Gains of approximately $229,000 were recognized on these sales (see Note 2).

4. Intangible Assets

Intangible assets consist of the following:

	September 27, 1997	September 28, 1996
Goodwill(a)	$3,802,877	$3,962,877
Purchased leasehold rights(b)	552,740	552,740
Noncomplete agreements and other(a)	790,000	840,000
Organization costs(a)	586,954	600,030
	5,732,571	5,955,647
Less accumulated amortization	2,386,395	2,070,552
	$3,346,176	$3,885,095

(a) In August 1985, certain subsidiaries of the Company acquired approximately one-third of the then outstanding shares of common stock (964,599 shares), from a former officer and director of the Company for a purchase price of $3,000,000. The consolidated balance sheets reflect the allocation of $2,946,00 to goodwill.

During fiscal 1996 the Company acquired two restaurants for approximately $108,000 in cash, the cancellation of long-term receivables of $880,000 and the assumption of notes payable totaling $550,000. The acquisitions were accounted for as purchase transactions with the purchase price allocated as follows: inventories $28,000, leasehold improvements $575,000, furniture, fixtures and equipment $350,000 and intangible assets $679,000.

At September 28, 1996 the Company was actively pursuing the sale of one of the two restaurants it acquired in fiscal 1996 and, accordingly, reclassified net intangible assets of $452,000 to assets held for sale. In the fiscal year ended September 27, 1997, the Company completed the sale of such restaurant and also actively pursued the sale of the other restaurant it had acquired in the fiscal year ended September 28, 1996. Accordingly, the Company reclassified net intangible assets of $180,619 to assets held for sale at September 27, 1997 (see Note 3).

(b) Purchased leasehold rights arise from acquiring leases and subleases of various restaurants.

5. Other Assets

Other assets consist of the following:

	September 27, 1997	September 28, 1996
Deposits	$408,797	$453,038
Deferred financing fees	271,292	172,942
Investments in and advances to affiliates(a)	2,512	53,740
	$682,601	$679,720

(a) The Company, through a wholly owned subsidiary, became a general partner with a 19% interest in a partnership which acquired on July 1, 1987 an existing Mexican food restaurant, El Rio Grande, in New York City. Several related parties also participate as limited partners in the partnership. The Company's equity in earnings of the limited partnership was $40,000, $48,000, and $60,000 for the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively.

The Company also manages El Rio Grande through another wholly owned subsidiary on behalf of the partnership. Management fee income relating to these services was $311,000, $450,000 and $519,000 for the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively (Note 11).

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	September 27, 1997	September 28, 1996
Sales tax payable	$ 803,805	$ 569,731
Accrued wages and payroll related costs	878,795	717,772
Other current liabilities	1,415,756	1,743,181
	$3,098,356	$3,030,684

7. Long-Term Debt

Long-term debt consists of the following:

	September 27, 1997	September 28, 1996
Revolving Credit and Term Loan Facility with interest at the prime rate, plus 1%, payable on March 1, 1998(a)	$2,750,000	$5,400,000
Notes issued in connection with refinancing of restaurant equipment, at 8.75%, payable in monthly installments through January 2002(b)	2,538,581	—
Note issued in connection with acquisition of restaurant site, at 7.25%, payable in monthly installments through January 1, 2000(c)	475,554	516,320
Note issued in connection with acquisition of restaurant site, at 8.5%, payable in monthly installments through April 2001(d)	362,662	487,546
	6,126,797	6,403,866
Less current maturities	1,424,129	150,689
	$4,702,668	$6,253,177

(a) The Company's Revolving Credit and Term Loan Facility with its main bank includes a $7,000,000 facility (the "Las Vegas Facility") for use in construction of and as working capital for the Company's Las Vegas food and beverage operations and a $5,000,000 facility (the "New York Facility") for working capital purposes at the Company's other restaurants. At September 27, 1997, The Company had $2,750,000 in borrowings outstanding on the Las Vegas facility. The Company had previously borrowed during the fiscal year ended September 27, 1997, $7,000,000 on the Las Vegas Facility and in accordance with the bank agreement it may not borrow any further amounts on this facility. Any outstanding amount as of March 1998 may be converted into a two-year term loan. At September 27, 1997, the Company had no borrowings outstanding on the New York Facility; however, the Company is permitted to borrow up to $5,000,000 until March 1998 at which time any outstanding borrowings may be converted into a two-year term loan. Outstanding revolving loans bear interest at 1% above the bank's prime rate until converted into term loans, at which time the interest rate is 1½% above the bank's prime rate. The Company paid a commitment fee of $150,000 at closing and a facility fee of ½% is due on any unused portion of the revolving credit facility.

The agreement includes a four-year $1,300,000 Letter of Credit Facility for use for the Company's existing restaurants. The Company is generally required to pay commissions of 1½% per annum on outstanding letters of credit.

(footnotes continued on next page)

(footnotes continued from previous page)

The Company's subsidiaries each guaranteed the obligations of the Company under the foregoing facilities and granted security interests in their respective assets as collateral for such guarantees. In addition, the Company pledged stock of such subsidiaries as security for obligations of the Company under such facilities.

The agreement includes restrictions relating to, among other things, indebtedness for borrowed money, capital expenditures, advances to managed businesses, mergers, sale of assets, dividends, and liens on the property of the Company. The agreement also contains financial covenants requiring the Company to maintain a minimum ratio of debt to net worth, minimum shareholders' equity, and a minimum ratio of cash flow prior to debt service. The Company is in compliance with all covenants.

(b) In January 1997, the Company borrowed from its main bank, $2,851,000 to refinance the purchase of various restaurant equipment at its food and beverage facilities in a hotel and casino in Las Vegas, Nevada. The notes bear interest at 8.75% per annum and are payable in 60 equal monthly installments of $58,833 inclusive of interest, until maturity in January 2002. The Company granted the bank a security interest in such restaurant equipment. In connection with such financing, the Company granted the bank the right to purchase 35,000 shares of the Company's common stock at the exercise price of $11.625 per share through December 2001. The fair value of the warrants was estimated at the date of grant, credited to additional paid-in capital and is being amortized over the life of the warrant.

(c) In November 1994, the Company issued a $600,000 note in connection with the acquisition of a restaurant in the Florida Keys. The Company remits monthly payments of $7,044 inclusive of interest until January 1, 2000, at which time the outstanding balance of $358,511 is due. The debt is secured by the leasehold improvements and tangible personal property at the restaurant.

(d) In April 1996 the Company acquired a restaurant for $550,000, which was financed by issuing a note payable in monthly installments of $13,461, inclusive of interest. At September 27, 1997, the Company was actively pursuing the sale of this restaurant and accordingly has classified the total balance due of $362,662 as a current liability within the current maturities of long-term debt balance (see Note 15).

Required principal payments on long-term debt are as follows:

Year	Amount
1998	$1,424,129
1999	1,479,940
2000	2,337,272
2001	654,351
2002	231,105
	$6,126,797

During the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995, interest expense was $931,383, $515,810 and $422,159, respectively, of which $176,000, $90,000 and $63,000 was capitalized during the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995.

The carrying value of the Company's long-term debt approximates its current aggregate fair value.

8. Commitments and Contingencies

Leases. The Company leases its restaurants, bar facilities, and administrative headquarters through its subsidiaries under terms expiring at various dates through 2029. Most of the leases provide for the payment of base rents plus real estate taxes, insurance and other expenses and, in certain instances, for the payment of a percentage of the restaurants' sales in excess of stipulated amounts at such facility.

As of September 27, 1997, future minimum lease payments, net of sublease rentals, under noncancellable leases are as follows:

Year	Operating Leases	Capital Leases
1998	$ 6,941,888	$321,235
1999	6,518,013	253,720
2000	6,157,663	154,118
2001	6,276,737	—
2002	6,269,495	—
Thereafter	32,019,799	—
Total minimum payments	$64,183,595	729,073
Less amount representing interest		77,128
Present value of net minimum lease payments		$651,945

In connection with the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of $693,758 as security deposits under such leases.

Rent expense (net of sublease rental income of $124,025 for the fiscal year ended September 30, 1995) was $9,102,267, $6,117,296 and $5,633,662, during the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively. Rent expense for the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995 includes approximately $19,000, $10,000 and $151,000 of operating lease deferred credits, representing the difference between rent expense recognized on a straight-line basis and actual amounts currently payable. Contingent rentals, included in rent expense, were $2,432,404, $547,038 and $405,399 for the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively.

Legal Proceedings. In the ordinary course of its business, the Company is a party to various lawsuits arising from accidents at its restaurants and workmen's compensation claims, which are generally handled by the Company's insurance carriers.

The employment by the Company of management personnel, waiters, waitresses and kitchen staff at a number of different restaurants has resulted in the institution, from time to time, of litigation alleging violation by the Company of employment discrimination laws. Various discrimination suits are currently pending, some of which involve substantial claims for compensatory and punitive damages. The Company does not believe that any of such suits will have a materially adverse effect upon the Company, its financial condition or operations.

A lawsuit was commenced against the Company in October 1997 in the District Court for the Southern District of New York by 44 present and former employees alleging various violations of Federal wage and hour laws. While the action is in its early stages, the Company does not believe that its liability, if any, from an adverse result in this matter would be material.

A lawsuit was commenced against the Company in April 1997 in the District Court for Clark County, Nevada by one former employee and one current employee of the Company's Las Vegas subsidiary alleging that (i) the Company forced food service personnel at the Company's Las Vegas facilities to pay a portion of their tips back to the Company in violation of Nevada law and (ii) the Company failed to timely pay wages to terminated employees. The action was brought as a class action on behalf of all similarly situated employees. The Company believes that the first allegation is entirely without merit and that the Company will have no liability. The Company also believes that its liability, if any, from an adverse result in connection with the second allegation would be inconsequential. The Company intends to vigorously defend against these claims.

In addition, several unfair labor practice charges have been filed against the Company before the National Labor Relations Board with respect to the Company's Las Vegas subsidiary. The Company believes that these unfair labor practice charges and the litigation described above are part of an ongoing campaign by the Culinary Workers Union which is seeking to represent employees at the Company's Las Vegas restaurants. However, rather than pursue the normal election process pursuant to which employees are given the freedom to choose whether they should be represented by a union, a process which the Company supports, the Company believes the union is seeking to achieve recognition as the bargaining agent for such employees through a campaign directed not at the Company's employees but at the Company itself and its stockholders. The Company intends to continue to support the right of its employees to decide such matters and to oppose the efforts of the Culinary Workers Union to circumvent that process.

9. Common Stock Private Placement

In December 1996, the Company raised net proceeds of $6,028,626 in a private placement of 551,454 shares of its common stock at $11 per share. The proceeds of such offering were used to repay a portion of the Company's outstanding bank borrowings and for the payment of capital expenditures on its Las Vegas restaurant facilities at the New York New York Hotel & Casino in Las Vegas which opened in January 1997.

10. Stock Options

On October 15, 1985, the Company adopted a Stock Option Plan (the "Plan") pursuant to which the Company reserved for issuance an aggregate of 175,000 shares of common stock. In May 1991 and March 1994, the Company amended such Plan to increase the number of shares issuable under the Plan to 350,000 and 447,650, respectively. In March 1996, the Company adopted a second plan and reserved for issuance an additional 135,000 shares. In March 1997, the Company amended this plan to increase the number of shares included under the plan to 270,000. Options granted under the Plans to key employees and directors are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire five years after the date of grant and are generally exercisable as to 25% of the shares commencing on the first anniversary of the date of grant and as to an additional 25% commencing on each of the second, third and fourth anniversaries of the date of grant.

Additional information follows:

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	105,625	$ 7.18	189,125	$5.45	183,800	$3.09
Options:						
Granted	150,000	11.71	—		81,000	8.00
Exercised	(17,500)	4.89	(72,500)	2.54	(74,550)	2.45
Canceled or expired	(10,625)	6.37	(11,000)	8.00	(1,125)	3.38
Outstanding, end of year(a)	227,500	10.38	105,625	7.18	189,125	5.45
Shares available for future grant	120,000		135,000		20,075	
Options exercisable(a)	47,500	7.65	43,125	6.34	88,125	2.87

(a) Options become exercisable at various times until expiration dates ranging from December 1997 through July 2002.

Statement of Financial Accountings Standard No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123") requires the Company to disclose pro-forma net income and pro-forma earnings per share information for employee stock option grants made in fiscal 1997 as if the fair-value method defined in SFAS No. 123 had been applied. The fair value of each stock-option grant is estimated on the date of grant using the Black-Scholes option-pricing. The assumptions for fiscal 1997 include: risk-free interest rates of 6.5%; no dividend yield; expected life of 4 years and expected volatility of 38%.

The pro-forma impact for fiscal 1997 was as follows:

Net Earnings as reported	$1,737,655
Net Earnings—pro-forma	1,694,991
Earnings per share as reported	$.47
Earnings per share pro-forma	.46

No options were granted during fiscal 1996 and therefore no pro-forma is required.

The exercise of nonqualified stock options in the fiscal years ended September 27, 1997, September 28, 1996 and September 30, 1995 resulted in income tax benefits of $57,580, $124,956 and $192,116, respectively, which were credited to additional paid-in capital. The income tax benefits result from the difference between the market price on the exercise date and the option price.

11. Management Fee Income

As of September 27, 1997, the Company provides management services to five restaurants and two corporate dining facilities owned by outside parties. In accordance with the contractual arrangements, the Company earns fixed fees and management fees based on restaurant sales and operating profits as defined by the various management agreements.

Restaurants managed had net sales of $14,151,888, $12,802,305 and $10,838,664 during the management periods within the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively, which are not included in consolidated net sales of the Company.

12. Income Taxes

The provision for income taxes reflects Federal income taxes calculated on a consolidated basis and state and local income taxes calculated by each subsidiary on a nonconsolidated basis. For New York State and City income tax purposes, the losses incurred by a subsidiary may only be used to offset that subsidiary's income.

The provision for income taxes consists of the following:

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Current provision:			
Federal	$ 668,391	$ 519,771	$ 532,947
State and local	908,183	625,570	475,062
	1,576,574	1,145,341	1,008,009
Deferred provision (credit):			
Federal	(329,602)	(592,721)	(314,745)
State and local	(102,364)	(99,771)	84,167
	(431,966)	(692,492)	(230,578)
	$1,144,608	$ 452,849	$ 777,431

The provision for income taxes differs from the amount computed by applying the Federal statutory rate due to the following:

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Provision for Federal income taxes (34%)	$ 980,000	$ 426,000	$ 646,000
State and local income taxes net of Federal tax benefit	532,000	347,000	369,000
Amortization of goodwill	26,000	26,000	26,000
Tax credits	(373,000)	(349,000)	(299,000)
Other	(20,392)	2,849	35,431
	$1,144,608	$ 452,849	$ 777,431

Deferred tax assets or liabilities are established for (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss carryforwards. The tax effects of items comprising the Company's net deferred tax asset are as follows:

	September 27, 1997	September 28, 1996
Deferred tax assets:		
Operating loss carryforwards	$ 858,937	$ 804,641
Operating lease deferred credits	657,958	671,537
Carryforward tax credits	1,157,368	835,721
Provision for uncollectible long-term receivable	—	68,000
Depreciation and amortization	11,045	—
Valuation allowance	(688,768)	(738,277)
	1,996,540	1,641,622
Deferred tax liabilities:		
Depreciation and amortization	—	77,048
Net deferred tax asset	$1,996,540	$1,564,574

A valuation allowance for deferred taxes is required if, based on the evidence, it is more likely than not that some of the deferred tax assets will not be realized. The Company believes that uncertainty exists with respect to future realization of certain operating loss carryforwards and operating lease deferred credits. Therefore, the Company provided a valuation allowance of $688,768 at September 27, 1997 and $738,277 at September 28, 1996. The Company has State operating loss carryforwards of $10,960,758 and local operating loss carryforwards of $8,045,724 which expire in the years 2002 through 2012.

The Internal Revenue Service is currently examining the Company's federal income tax returns for fiscal years ended September 28, 1991 through October 1, 1994, and the Internal Revenue Service has proposed certain adjustments, all of which are being contested by the Company. The Company does not believe that any adjustments resulting from this examination will have a material effect on the Company's financial condition.

13. Other Income

Other income consists of the following:

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Purchasing service fees	$ 86,073	$ 55,551	$ 67,367
Insurance proceeds(a)	377,427	726,415	914,475
Sales of logo T-shirts and hats	171,259	214,291	180,364
Other	145,522	86,460	56,860
	$780,281	$1,082,717	$1,219,066

(a) In July 1994, the Company was required to close a restaurant in Manhattan (Ernie's) on a temporary basis to enable structural repairs to be made to the ceiling of the restaurant. The cost of such repairs, other ongoing restaurant operating expenses and a guaranteed profit were borne by a third party. The restaurant reopened in February 1995 and the agreement provides that the third party continue to guarantee some level of operating profits through January 1998. During the fiscal years ended September 27, 1997 and September 28, 1996, the Company received $377,427 and $726,415, respectively, in excess of the continuing restaurant operating expenses.

14. Quarterly Information (Unaudited)

The following table sets forth certain quarterly operating data.

	Fiscal Quarter Ended			
	December 28, 1996	March 29, 1997	June 28, 1997	September 27, 1997
1997				
Net sales	$18,166,656	$24,887,795	$31,469,304	$29,802,631
Gross restaurant profit	13,068,926	17,775,683	22,922,594	22,107,296
Net income (loss)	(552,503)	(1,108,203)	1,947,476	1,450,885
Net income (loss) per share	$ (0.16)	$ (0.29)	$ 0.51	$ 0.38

	Fiscal Quarter Ended			
	December 30, 1995	March 30, 1996	June 29, 1996	September 28, 1996
1996				
Net sales	$18,723,119	$15,450,293	$22,600,958	$20,021,570
Gross restaurant profit	13,545,173	11,147,783	16,684,719	14,556,800
Net income (loss)	25,108	(1,028,807)	1,137,265	655,196
Net income (loss) per share	$ 0.01	$ (0.32)	$ 0.35	$ 0.20

15. Subsequent Events (Unaudited)

Restaurant Sale. In the first quarter of fiscal 1998, the Company sold a restaurant located in New York City. The selling price for the restaurant was $1,750,000 of which $200,000 was paid in cash and the balance of $1,550,000 is due in monthly installments of $18,569, inclusive of interest at 7.5%, from May 1998 through April 2000 and monthly installments of $14,500, inclusive of interest at 7.5% from May 2000 through December 2008. At December 2008 an outstanding balance of $519,260 matures. The Company expects to recognize a gain of approximately $185,000 in fiscal 1998.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ernest Bogen
Chairman

Michael Weinstein
President

Paul Gordon
Vice President—Director of Las Vegas Operations

Andrew Kuruc
Vice President—Chief Financial Officer

Vincent Pascal
Vice President

Robert Towers
Vice President—Chief Operating Officer

Donal Shack
Partner, Shack & Siegel, P.C.

Jay Galin
President, G & G Shops, Inc.

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