Ark
Restaurants
Corp.

1998 ANNUAL REPORT

THE COMPANY

Ark Restaurants Corp. (the "Company") is a holding company which, through subsidiaries, owns and operates 21 restaurants and manages five restaurants owned by others. Fourteen of the restaurants owned or managed by the Company are located in New York City, three are located in Washington, D.C., four are located in Las Vegas, Nevada (three of which are within the New York-New York Hotel & Casino), three are located in Boston, Massachusetts, and one is located in each of 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, and a café at the Warner Bros. studio store in New York City.

The Company will provide without charge a copy of the Company’s Annual Report on Form 10-K for the fiscal year ended October 3, 1998, including financial statements and schedules thereto, to each of the Company’s shareholders of record on February 5, 1999 and each beneficial holder 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 measure we had a wonderful result this past year. In an Ark award speech there would be no time to name all those contributing. As always I attach to this letter a list of our mangers and executive chefs. Also, we have excellent employees throughout our company as well as good relationships with our banks, landlords and purveyors. Thank you all.

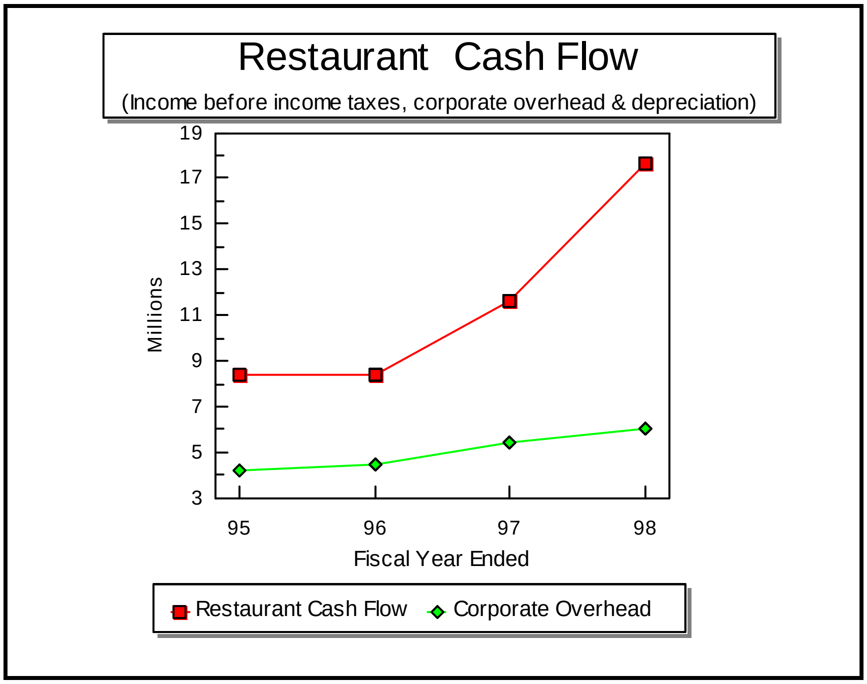
This was the year in which operating income from Las Vegas flowed to the bottom line. Paul Gordon our senior v.p. and Damien McEvoy our executive chef in these operations continue to increase quality and efficiency. Sales at Las Vegas in 1998 reflect a full 12 months as compared to 9 months of sales in our 1997 fiscal year. Again, we experienced strong same store sales in our non Las Vegas operations. Bob Towers, Vinnie Pascal, Drew Kuruc oversee all aspects of our business. The value of their efforts are shown below.

	1998	1997	1996
Net Income	$4,612,141	$1,737,655	$788,762
Earnings per Share	1.20	.46	.24
Shareholders' Equity	29,062,140	25,888,880	17,804,394
Shareholders' Equity per Share	7.54	6.92	5.44
Return on Equity	17.8%	9.8%	4.7%
Sales at Owned Restaurants (including Las Vegas)	117,398,453	104,326,3	76,795,940
Sales at Owned Restaurants (excluding Las Vegas)	79,657,707	76,048,425	76,795,940
Sales at Las Vegas	37,740,746	28,277,961*	N/A
Increase (Decrease) of Same Store Sales	3.1%	2.6%	(3.0%)
Cash Position	1,023,046	722,283	907,003
Long-Term Debt	5,014,634	6,126,797	6,403,866
Capital Lease Obligations	378,438	651,945	903,202
Working Capital Deficit	719,343	2,373,859	1,303,920
General and Administrative Expenses	6,052,435	5,445,990	4,474,697
Restaurant Cash Flow (pre-tax, pre-depreciation)	17,659,589	11,648,992	8,381,200
Cost of Sales as a % of sales (all restaurants)	26.6%	27.3%	27.2%
Cost of Sales (Excluding Las Vegas)	26.0%	26.3%	27.2%
Cost of Sales at Las Vegas	27.9%	29.8%	N/A
Operating Expenses as a % of sales (all restaurants)	62.7%	65.9%	67.9%
Operating Expenses (Excluding Las Vegas)	63.1%	64.3%	67.9%
Operating Expenses at Las Vegas	62.0%	70.4%	N/A
Restaurant Payrolls as a % of sales (all restaurants)	35.1%	36.9%	36.1%
Restaurant Payrolls (Excluding Las Vegas)	34.2%	35.0%	36.1%
Restaurant Payrolls at Las Vegas	36.9%	42.1%	N/A

* 9 Months

You will notice that shareholders' equity increased by $3,173,260 which is less than net income of $4,612,141. The primary difference is that shareholders' equity was reduced by $1,522,496 when we purchased 159,000 shares of our stock in open market transactions as part of our announced intention to purchase 500,000 shares.

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.



The company's sales increased to $117,398,453. General and administrative cost as a percentage of sales remained at 5.2%. If you include sales of managed (not owned) restaurants which are not included in our consolidated sales the percentage was 4.6%. We believe this to be efficient. However, we also believe that we are in a position to add additional sales volume without adding significantly to our general and administrative expense.

We have mostly completed the transition from an operation of moderately sized neighborhood restaurants to that of an operator of high volume multi-concept food facilities. Consistent with this transition we sold two more restaurants An American Place and Beekman 1766 Tavern, and at year end were in contract to sell B.Smith's Washington D.C. and Perretti Italian Cafe. Our larger sites have competitive advantages. There is a natural flow of customers to entertainment sites, public parks, waterfronts and train stations. Sales at our restaurants in these locations require considerable capital and expertise and therefore we generally operate with less competition and healthy demand to supply ratios.

We have strong catering and corporate party skills. If you would like information you can contact Adrienne Hara at 212-206-8815. You can also visit our website at www.arkrestaurants.com.

In looking back to previous letters to shareholders, I became aware that I have less to say as the numbers get better.

Michael Weinstein, President

February 1, 1999

ARK RESTAURANTS CORP.

CORPORATE OFFICE
Michael Weinstein, *President*
Andrew Kuruc, *Vice President-Chief Financial Officer*
Mitchell Levy, *Vice President*
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, *Director of Design and Conceptual Development*
Heather Cook, *Director of Media, Marketing and Creative Development*
Marilyn Guy, *Director of Human Resources*
Adrienne Hara, *Director of Catering*
Colleen Hennigan, *Director of Operations - Washington Division*
John Oldweiler, *Director of Purchasing*
Donna Palamaro, *Director of Operations*
Jennifer Sutton, *Operations and Financial Analysis*
Pei Ming Tong, *Executive Assistant*
Joe Vazquez, *Facilities Management*

JOINT VENTURE ASSOCIATES
Eberhard Müller, *Lutèce*
André Soltner, *Lutèce*

EXECUTIVE CHEFS
Mike Kiernan
Marc Meyer
Damien McEvoy
Chun Liao

RESTAURANT GENERAL MANAGERS

Joe Albanese, *Gonzalez Y Gonzalez, Las Vegas*
Jennifer Baquerizo, *El Rio Grande*
Marc Campbell, *Louisiana Community Bar & Grill*
Liz Caro, *Metropolitan Cafe*
Jack Christou, *B.Smith's*
Helen Claydon, *The Grill Room*
Tom Ferretti, *Ernie's*
Jeff Fuhreng, *Stage Deli, Las Vegas*
Charles Gerbino, *Las Vegas Employee Dining Facility*
Bridgeen Hale, *America, NY*
Deidre Harris, *Columbus Bakery*
John Hausdorf, *Las Vegas Catering and Room Service*
Colleen Hennigan, *America, DC and Sequoia, DC*
Halbert Hernandez, *Canyon Road*
Robert Ledbetter, *Village Streets, Las Vegas*
Shephard Lee, Columbus Bakery
Debra Lomurno, *Sequoia, NY*
John Maloughney, *Lor-e-Lei*
James Mohn, *Marketplace Cafe, Shenandoah and Brewskeller Pub*
Danny Ovalles, *Gonzalez Y Gonzalez*
Christian Pascal, *Warner Bros. Cafe*
Ben Reid, *America, Virginia*
Bobbie Rihel, *America, Las Vegas*
Christina Ruelas, *Gallagher's, Las Vegas*
Donna Simms, *Bryant Park Grill*
Ridgely Trufant, *Red*
Marty Weinstein, *Woody's*

RESTAURANT CHEFS

Charles Brucculeri, *Bryant Park Grill*
Chan May Chung, *Ernie's*
Henry Chung, *B.Smith's*
Armando Cortes, *Metropolitan Cafe*
John Dornback, *The Grill Room*
Avry Dumbrys, *America, Las Vegas*
Carlos Garcia, *Sequoia, NY*
Salvador Garcia, *Louisiana Community Bar & Grill*
Raoul Juarez, *El Rio Grande*
Alfredo Leal, *Warner Bros. Cafe*
Teow Chien Lin, *America, VA*
Chun Liao, *Sequoia, Washington, D.C.*
Kok Mun Ma, *Woody's*
John Miller, *Las Vegas Employee Dining Facility*
Christa Partlow, *Lor-e-Lei*
Virgilio Ortega, *Columbus Bakery*
Michael Parker, *Gallagher's, Las Vegas*
Michael Foo, *America, DC*
Ruperto Ramirez, *Canyon Road Grill*
Sergio Salazar, *Gonzalez Y Gonzalez, Las Vegas*
Mariano Veliz, *Gonzalez Y Gonzalez*
Gadi Weinreich, *America, NY*

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth certain financial data for the fiscal years ended 1994 through 1998. 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		
	October 3, 1998	September 27, 1997	September 28, 1996	September 30, 1995	October 1, 1994
OPERATING DATA:					
Net sales	$ 117,398,453	$ 104,326,386	$ 76,795,940	$ 73,026,907	$ 60,404,339
Gross restaurant profit	86,132,751	75,874,499	55,934,475	53,001,963	43,562,653
Operating income	7,589,465	2,785,713	497,996	960,794	840,452
Other income, net	91,417	96,550	743,615	937,763	507,200
Income before provision for income taxes and extraordinary item	7,680,882	2,882,263	1,241,611	1,898,557	1,347,652
Income before extraordinary item	4,612,141	1,737,655	788,762	1,121,126	643,032
NET INCOME	4,612,141	1,737,655	788,762	1,121,126	1,150,802
Income per share before extraordinary item and cumulative effect of accounting change:					
Basic	$ 1.21	$ 0.47	$ 0.24	$ 0.34	$ 0.20
Diluted	$ 1.20	$ 0.46	$ 0.24	$ 0.34	$ 0.20
NET INCOME PER SHARE:					
Basic	$ 1.21	$ 0.47	$ 0.24	$ 0.34	$ 0.36
Diluted	$ 1.20	$ 0.46	$ 0.24	$ 0.34	$ 0.36
Weighted average number of shares used in computation	3,852,019	3,742,811	3,272,857	3,252,669	3,223,833
BALANCE SHEET DATA (end of period):					
Total assets	43,102,179	41,268,098	32,379,479	28,541,920	21,768,747
Working capital (deficit)	(719,343)	(2,373,859)	(1,303,920)	40,996	1,517,601
Long-term debt	5,014,634	6,126,797	6,403,866	4,014,162	761,386
Shareholders' equity	29,062,140	25,888,880	17,804,394	16,706,301	15,210,202
Shareholders' equity per share	7.54	6.92	5.44	5.14	4.72
Facilities in operation at end of year, including managed	42	46	32	32	27

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 year ended October 3, 1998 included 53 weeks while the fiscal years ended September 27, 1997 and September 28, 1996 included 52 weeks.

Net Sales

Net sales at restaurants owned by the Company increased by 12.5% from fiscal 1997 to fiscal 1998 and by 35.8% from fiscal 1996 to fiscal 1997. The increase in fiscal 1998 was substantially 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 (named Gallagher's under a license agreement with the owner of the New York restaurant of that name); 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. The increase in fiscal 1998 was also due in part to the acquisition of a restaurant located in the Forum Shops at Caesar's Shopping Center in Las Vegas (the Stage Deli of Las Vegas) and to the first full operating year of a restaurant which the Company opened in fiscal 1997 (The Grill Room). Same store sales in fiscal 1998 increased by 3.1% principally due to increased customer counts.

The increase in fiscal 1997 was primarily due to sales from the Las Vegas facilities which opened in January 1997. Same store sales in fiscal 1997 increased by 2.6% principally due to increased 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 26.6% in fiscal 1998, 27.3% in fiscal 1997, and 27.2% in fiscal 1996. 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 operations.

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 62.7% in fiscal 1998, 65.9% in fiscal 1997 and 67.9% in fiscal 1996. This decrease in operating expenses in fiscal 1998 as compared to fiscal 1997 was principally due to efficiencies achieved at the Company's Las Vegas facilities and to a lesser extent to a benefit from the 3.1% increase in same store sales at the Company's other facilities. The 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 to a benefit from the 2.6% increase in same store sales. Restaurant payroll was 35.1% of net sales in fiscal 1998, 36.9% in fiscal 1997 and 36.1% in fiscal 1996. The increase in fiscal 1997 was principally due to higher payroll costs at the Company's Las Vegas food and beverage operations as compared to the Company's other operations and to a lesser extent from increases in minimum wage rates. Occupancy expenses (consisting of rent, rent taxes, real estate taxes, insurance and utility costs) were 11.7% in fiscal 1998, 12.5% in fiscal 1997 and 12.8% in fiscal 1996.

The Company incurred pre-opening expenses and early operating losses at newly opened restaurants of approximately $200,000 in fiscal 1998, $2,000,000 in fiscal 1997 and $200,000 in fiscal 1996. 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 both fiscal 1998 and fiscal 1997 as compared to 5.8% in fiscal 1996. 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 4.7% in fiscal 1998, 4.6% in fiscal 1997 and 5.0% in fiscal 1996.

As of October 3, 1998 the Company managed five restaurants owned by others (El Rio Grande and Woody's in Manhattan, the Marketplace Café, Savannah, and the Brewskeller Pub in Boston, Massachusetts), and a café in a store in New York City (Warner Bros.). Net sales of these restaurant facilities, which are not included in consolidated net sales were \$12,738,000 in fiscal 1998, \$14,151,000 in fiscal 1997 and \$12,802,000 in fiscal 1996.

Interest expense was \$608,000 in fiscal 1998, \$755,000 in fiscal 1997 and \$426,000 in fiscal 1996, net of amounts capitalized. The decrease in fiscal 1998 from fiscal 1997 is principally due to repayments of borrowings incurred in fiscal 1997. Such borrowings financed the construction costs and working capital requirements of the Las Vegas restaurant facilities which opened in January 1997.

Interest income was \$210,000 in fiscal 1998, \$72,000 in fiscal 1997 and \$87,000 in fiscal 1996. The increase in fiscal 1998. as compared to fiscal 1997 is due to interest earned on notes issued in connection with restaurants sold in fiscal 1997 and fiscal 1998.

Other income, which generally consists of purchasing service fees, and the sale of logo merchandise at various restaurants, was \$490,000 in fiscal 1998, \$780,000 in fiscal 1997 and \$1,083,000 in fiscal 1996. A significant portion of the amounts received in fiscal 1997 and fiscal 1996 was principally due to amounts the Company received by 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 both fiscal 1998 and fiscal 1997 and 37% in fiscal 1996.

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 \$506,000 in fiscal 1998, \$373,000 in fiscal 1997 and \$349,000 in fiscal 1996.

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 has proposed certain adjustments, all of which are being contested by the Company. The adjustments primarily relate to (i) pre-opening, legal and accounting expenses incurred in connection with new or acquired restaurants that the Internal Revenue Service asserts should have been capitalized and amortized rather than currently expensed and (ii) travel and meal expenses for which the Internal Revenue Service asserts the Company did not comply with certain record keeping requirements of the Internal Revenue Code. 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 1998 ($4,179,000), fiscal 1997 ($10,445,000) and fiscal 1996 ($6,693,000) was principally from the Company's continued investment in fixed assets associated with constructing new restaurants and acquiring existing restaurants. In fiscal 1998 the Company acquired an existing restaurant in Las Vegas (the Stage Deli) and in fiscal 1997 the Company finished and opened the Las Vegas restaurant facilities which had also been in construction since fiscal 1996.

The net cash used in financing activities in fiscal 1998 ($2,825,000) was principally due to the repurchase of 159,000 shares of the Company's outstanding common stock and repayments of debt on the Company's main credit facility in excess of borrowings on such facility. The net cash provided by financing activities in fiscal 1997 ($5,643,000) was principally due to proceeds of a private placement of 551,454 shares of the Company's common stock. In fiscal 1996 net cash provided by financing activities ($2,321,000) was principally from the Company's borrowings on its main credit facility exceeding repayments on such facility.

At October 3, 1998 the Company had a working capital deficit of $719,000 as compared to working capital deficit of $2,374,000 at September 27, 1997. The working capital deficit at the end of fiscal 1997 was significantly impacted by cash expended for the construction of the Las Vegas facilities which opened in January 1997. 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 $10,000,000 facility for use in construction of and acquisition of new restaurants and for working capital purposes at the Company's existing restaurants. The facility allows the Company to borrow up to $10,000,000 until April 2000 at which time outstanding loans mature. The loans bear interest at a rate of prime plus ½%. At October 3, 1998 the Company had borrowings of $2,600,000 outstanding on the facility.

The Company also has a two year $1,000,000 Letter of Credit Facility for use in lieu of lease security deposits. At October 3, 1998 the Company had delivered $556,000 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 restaurant 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 began construction on a 500 plus seat Southwestern style restaurant at Union Station in Washington, D.C., where the Company operates two other restaurants. The Company expects to incur up to $1,800,000 in capital costs and other pre-opening expenses to open this restaurant. The Company expects to open this restaurant in the March 1999 fiscal quarter.

The Company expects to shortly begin construction on its previously announced project at a large theatre development in Southfield, Michigan under a joint venture agreement with Sony Theatres' Loeks Star Partners and Millennium Partners. There the Company will develop and operate four restaurants containing a total of approximately 50,000 square feet. The Company anticipates that its share of the required capital contributions to meet the construction costs, initial inventories and pre-opening expenses will be $6,500,000. The project is currently scheduled to open in the June 1999 fiscal quarter.

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 1999, the Company sold a restaurant located in New York City (Perretti Italian Café) and a restaurant located in Washington, D.C. (B. Smith's) for an aggregate selling price of $1,225,000 of which $975,000 was paid in cash and the balance was financed by notes. The Company expects to record a gain of approximately $600,000 on these sales.

The Financial Accounting Standards Board has recently issued several new accounting pronouncements:

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises employers' disclosures about pension and other postretirement benefit plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practical, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful as they were under SFAS No. 87, "Employers' Accounting for Pension," and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefits Pension Plans and Termination Benefits." SFAS No. 132 is effective for fiscal years beginning after December 15, 1998.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that the Company recognizes all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designed as a hedge of the exposure to changes in fair value of a recognized asset or liability or hedge of the exposure to variable cash flows of a forecasted transaction. The accounting for changes in fair value of a derivative (e.g., through earnings or outside earnings, through comprehensive income) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" requires costs of start-up activities and organization costs to be expensed as incurred. Currently some companies capitalize start-up costs whereas others expense start-up as incurred. Additionally, there is a diverse range of amortization periods among companies that capitalize start-up costs. The statement is effective for fiscal years beginning after December 15, 1998. The Company currently expenses all start-up costs as incurred while organization costs are capitalized and amortized over five years.

Year 2000

The Company has assessed and continues to assess the impact of the year 2000 issue on its reporting systems and operations. The year 2000 issue exists because many computer systems and applications currently used two-digit fields to designate a year. When the century date occurs, date-sensitive systems may recognize the year 2000 as 1900 or not at all. This inability to recognize or properly treat the year 2000 may cause systems to process critical financial and operational information incorrectly. Based on a review of the Company's computer systems, management does not currently believe the cost of remediation will exceed $100,000.

The Company has initiated communications with its significant vendors and service providers to determine the extent to which the Company's systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. At the Company's facilities at the New York-New York Hotel and Casino, for example, the Company utilizes and interfaces with systems provided by the Hotel and the failure of the Hotel's computer systems to adequately address the Year 2000 issue may have a material adverse effect upon the Company. The Company has been advised by the Hotel that its systems are expected to be Year 2000 compliant.

The Company is dependent upon major credit card issuers for the remittance to the Company of charges incurred by customers. The Company has been advised that the major credit card issuers in the United States have addressed the Year 2000 issues they confront and do expect that their systems will function properly in the Year 2000.

Other vendors and service providers with which the Company does business may not have adequately addressed the Year 2000 issue. However, the Company believes that there are numerous sources for the various products and services used by the Company and does not anticipate that Year 2000 compliance issues confronted by its vendors and service providers will have a material adverse effect upon the Company.

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 28, 1997 through October 3, 1998 are as follows:

Calendar 1996	High	Low
Third Quarter	10	7 ¾
Fourth Quarter	12 ¾	9 ¼
Calendar 1997		
First Quarter	15 ¼	10¼
Second Quarter	11 ¼	7 ⅝
Third Quarter	11 ½	8 ¼
Fourth Quarter	12 ½	10 ¾
Calendar 1998		
First Quarter	13⅛	11 ½
Second Quarter	12⅛	11
Third Quarter	12⅜	9 ¼

Dividends

The Company has not any paid cash dividends since its inception and does not intend to pay dividends in the foreseeable future. Under the terms of the Credit Agreement between the Company and 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 December 11, 1998, there were 86 holders of record of the Company's Common Stock.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Ark Restaurants Corp.

We have audited the accompanying consolidated balance sheets of Ark Restaurants Corp. and its subsidiaries as of October 3, 1998 and September 27, 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended October 3, 1998. 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 October 3, 1998 and September 27, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended October 3, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

New York, New York
November 20, 1998

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	October 3, 1998	September 27, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,023,046	$722,283
Accounts receivable	2,507,307	1,975,434
Current portion of long-term receivables (Note 2)	415,755	277,402
Inventories	1,950,146	2,044,689
Deferred income taxes (Note 12)	908,468	915,534
Prepaid expenses and other current assets	491,129	432,816
Total current assets	7,295,851	6,368,158
LONG-TERM RECEIVABLES (Note 2)	1,119,110	971,023
ASSETS HELD FOR SALE (Note 3)	1,767,782	1,892,639
FIXED ASSETS - At cost (Notes 4 and 7):		
Leasehold improvements	22,464,922	22,526,150
Furniture, fixtures and equipment	18,591,938	18,387,492
Leasehold improvements in progress	18,906	50,053
	41,075,766	40,963,695
Less accumulated depreciation and amortization	15,833,403	14,037,200
	25,242,363	26,926,495
INTANGIBLE ASSETS - Net (Note 4)	5,514,932	3,346,176
DEFERRED INCOME TAXES (Note 12)	1,030,908	1,081,006
OTHER ASSETS (Note 5)	1,131,233	682,601
	$43,102,179	$41,268,098
CURRENT LIABILITIES:		
Accounts payable - trade	$ 3,563,068	$ 3,560,250
Accrued expenses and other current liabilities (Note 6)	2,907,766	3,098,356
Current maturities of capital lease obligations (Note 8)	229,944	245,412
Current maturities of long-term debt (Note 7)	609,283	1,424,129
Accrued income taxes (Note 12)	705,133	413,870
Total current liabilities	8,015,194	8,742,017
OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	148,494	406,533
LONG-TERM DEBT - Net of current maturities (Notes 4 and 7)	4,405,351	4,702,668
OPERATING LEASE DEFERRED CREDIT (Note 8)	1,471,000	1,528,000
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, 5,187,836 and 5,177,836 shares, respectively	51,879	51,779
Additional paid-in capital	14,214,898	14,131,383
Retained earnings	17,565,258	12,953,117
	31,832,035	27,136,279
Less treasury stock, 1,504,337 and 1,345,337 shares	2,769,895	1,247,399
	29,062,140	25,888,880
	$43,102,179	$41,268,098

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	October 3, 1998	September 27, 1997	September 28, 1996
NET SALES	$117,398,453	$104,326,386	$ 76,795,940
COST OF SALES	31,265,702	28,451,887	20,861,465
Gross restaurant profit	86,132,751	75,874,499	55,934,475
MANAGEMENT FEE INCOME (Note 11)	1,139,799	1,153,264	1,204,808
	87,272,550	77,027,763	57,139,283
OPERATING EXPENSES:			
Payroll and payroll benefits	41,171,865	38,520,986	27,740,390
Occupancy	13,788,992	13,031,811	9,843,110
Depreciation	3,998,272	3,320,739	2,664,892
Other	14,671,521	13,922,524	11,918,198
	73,630,650	68,796,060	52,166,590
GENERAL AND ADMINISTRATIVE EXPENSES	6,052,435	5,445,990	4,474,697
	79,683,085	74,242,050	56,641,287
OPERATING INCOME	7,589,465	2,785,713	497,996
OTHER EXPENSE (INCOME):			
Interest expense (Note 7)	608,278	755,383	425,810
Interest income	(209,577)	(71,652)	(86,708)
Other income (Note 13)	(490,118)	(780,281)	(1,082,717)
	(91,417)	(96,550)	(743,615)
INCOME BEFORE PROVISION FOR INCOME TAXES	7,680,882	2,882,263	1,241,611
PROVISION FOR INCOME TAXES (Note 12)	3,068,741	1,144,608	452,849
NET INCOME	$ 4,612,141	$ 1,737,655	$ 788,762
NET INCOME PER SHARE - BASIC	$ 1.21	$ .47	$ .24
NET INCOME PER SHARE - DILUTED	$ 1.20	$ .46	$ .24
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC	3,826,255	3,714,116	3,238,419
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED	3,852,019	3,742,811	3,272,857

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED OCTOBER 3, 1998, SEPTEMBER 27, 1997, AND SEPTEMBER 28, 1996

	Common Stock		Additional			Total
	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Shareholders' Equity
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
Exercise of stock options	10,000	100	64,900	--	--	65,000
Purchase of treasury stock	--	--	--	--	(1,522,496)	(1,522,496)
Tax benefit on exercise of options	--	--	18,615	--	--	18,615
Net income	--	--	--	4,612,141	--	4,612,141
BALANCE, OCTOBER 3, 1998	5,187,836	$ 51,879	$ 14,214,898	$ 17,565,258	$ (2,769,895)	$ 29,062,140

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	October 3, 1998	Year Ended September 27, 1997	September 28, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,612,141	$ 1,737,655	$ 788,762
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	3,432,104	3,047,422	2,324,304
Amortization of intangibles	566,168	445,123	492,207
Loss (gain) on sale of restaurants	(258,684)	(229,000)	297,000
Provision for uncollectible long-term receivables	--	--	96,000
Operating lease deferred credit	(57,000)	(19,000)	10,000
Deferred income taxes	57,164	(431,966)	(692,492)
Changes in assets and liabilities:			
Increase in accounts receivable	(531,873)	(512,935)	(184,672)
Increase in inventories	(17,020)	(890,567)	(65,597)
Increase (decrease) in prepaid expenses and other current assets	(58,313)	112,961	603,675
(Increase) decrease in other assets, net	(543,820)	60,008	(232,205)
Increase in accounts payable - trade	2,818	1,194,311	330,167
Increase in accrued income taxes	291,263	89,476	59,025
Increase (decrease) in accrued expenses and other current liabilities	(190,590)	13,672	181,392
Net cash provided by operating activities	7,304,358	4,617,160	4,007,566
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(1,713,847)	(11,006,116)	(6,833,018)
Additions to intangible assets	(229,524)	(11,639)	(110,849)
Issuance of demand notes and long-term receivables	(81,580)	--	(63,092)
Payments received on demand notes and long-term receivables	315,908	264,370	171,651
Restaurant sales	265,000	308,000	250,000
Restaurant acquisitions	(2,735,000)	--	(108,000)
Net cash used in investing activities	(4,179,043)	(10,445,385)	(6,693,308)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payment on long-term debt	(8,012,164)	(10,277,900)	(1,857,045)
Issuance of long-term debt	6,900,000	10,000,831	4,100,000
Exercise of stock options	83,615	143,205	309,331
Principal payment on capital lease obligations	(273,507)	(251,257)	(230,825)
Purchase of treasury stock	(1,522,496)	--	--
Proceeds from common stock private placement	--	6,028,626	--
Net cash provided by (used in) financing activities	(2,824,552)	5,643,505	2,321,461
DECREASE IN CASH AND CASH EQUIVALENTS	300,763	(184,720)	(364,281)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	722,283	907,003	1,271,284
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,023,046	$ 722,283	$ 907,003
SUPPLEMENTAL INFORMATION:			
Cash payments for the following were:			
Interest	$ 608,278	$ 931,383	$ 515,810
Income taxes	$ 2,699,651	$ 1,502,643	$ 966,434

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 3, 1998, SEPTEMBER 27, 1997, AND SEPTEMBER 28, 1996

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ark Restaurants Corp. and subsidiaries (the “Company”) own and operate 21 restaurants, and manage five restaurants, of which 14 are in New York City, three in Washington, D.C., four in Las Vegas, Nevada (three within the New York New York Hotel and Casino Resort), three in Boston, Massachusetts and one each in 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 and, a café at the Warner Bros. store in New York City.

ACCOUNTING PERIOD **-** The Company's fiscal year ends on the Saturday nearest September 30. The fiscal year ended October 3, 1998, included 53 weeks and the fiscal years ended September 27, 1997, and September 28, 1996 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 $1,069,852 and $719,871 for fiscal years ended October 3, 1998 and September 27, 1997. 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.

The Company annually assesses any impairments in value of long-lived assets and certain identifiable intangibles to be held and used. For all periods presented, no impairments were deemed necessary.

Certain costs incurred during the construction period of restaurants, including rental of premises, training and payroll, were 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 periods ranging from 10 to 15 years or lease term, whichever period is shorter.

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, as discussed in Note 7, 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 - Net income per share is computed in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 128, “Earnings Per Share,” and is calculated on the basis of the weighted average number of common shares outstanding during each period plus the additional dilutive effect of common stock equivalents. Common stock equivalents consist of dilutive stock options.

STOCK OPTIONS - The Company accounts for its stock options granted to employees under the intrinsic value-based method for employee stock-based compensation and provides pro forma disclosure of net income and earnings per share as if the accounting provision of SFAS No.123 had been adopted. The company generally does not grant options to outsiders.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS - The Financial Accounting Standard Board has issued SFAS No. 130, “Reporting Comprehensive Income,” which establishes standards for reporting and display of comprehensive income and its components. The Company believes that there are no items that would require presentation in a separate statement of comprehensive income. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997.

SFAS No. 131, “Disclosure about Segments of an Enterprise and Related Information” established 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 established standards for related disclosures about products and services, geographic areas, and major customers. Management believes that there are no items that would require segment presentation. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS - The Financial Accounting Standards Board has recently issued several new accounting pronouncements. SFAS No. 132, “Employers' Disclosures about Pensions and Other Postretirement Benefits,” revises employers' disclosures about pension and other postretirement benefit plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practical, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when SFAS No 87, “Employers' Accounting for Pension,” SFAS No. 88, “Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits.” SFAS No. 132 is effective for fiscal years beginning after December 15, 1998.

SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that the Company recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designed as a hedge of the exposure to changes in fair value of a recognized asset or liability or hedge of the exposure to variable cash flows of a forecasted transaction. The accounting for changes in fair value of a derivative (e.g., through earnings or outside earnings, through comprehensive income) depends on the intended use of the derivative and the resulting designation. SFAS No 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

Statement of Position 98-5, “Reporting on the Costs of Start-Up activities” requires costs of start-up activities and organization costs to be expensed as incurred. Currently some companies capitalize start-up costs whereas others expense start-up costs as incurred. Additionally, there is a diverse range of amortization periods among companies that capitalize start-up costs. The Statement is effective for fiscal years beginning after December 15, 1998. The Company currently expenses all start-up costs as incurred while organization costs are capitalized and amortized over five years.

The effect of the adoption of these Statements on the Company's consolidated financial statements is not expected to be material.

RECLASSIFICATIONS - Certain reclassifications have been made to the 1997 and 1996 financial statements to conform to the 1998 presentation.

2. LONG-TERM RECEIVABLES

Long-term receivables consist of the following:

	October 3, 1998	September 27, 1997
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)	$ 564,769	$ 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)	153,187	190,798
Note receivable secured by fixed assets and lease at a restaurant sold by the Company, at 7.5% interest; due in monthly installments through April 2000 (c)	331,700	--
Note receivable secured by fixed assets and lease at a restaurant sold by the Company, at 7.5% interest; due in monthly installments commencing May 2000 through December 2008 (c)	207,983	--
Advances for construction and working capital, at one of the Company's managed locations, at 15% interest; due in monthly installments through December 2000	164,446	225,983
Advances for construction, at one of the Company's managed locations, at prime plus 1%; due in monthly installments through December 1999	33,662	59,632
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	79,118
Other	--	5,397
	1,534,865	1,248,425
Less current portion	415,755	277,402
	$1,119,110	$ 971,023

(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.

(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 in the fiscal year ended September 27, 1997.

(c) In October 1997, the Company sold a restaurant for $1,750,000, of which $200,000 was paid in cash and the balance is due in monthly installments under the terms of two notes bearing interest at a rate of 7.5%. One note, with an initial principal balance of $400,000, is being paid in 24 monthly installments of $18,569 through April 2000. The second note, with an initial principal balance of $1,150,000, will be paid in 104 monthly installments of $14,500 commencing May 2000 and ending December 2008. At December 2008, the then outstanding balance of $519,260 matures.

The Company recognized a gain on sale of approximately $185,000 in the fiscal year ended October 3, 1998. Additional deferred gains totaling $1,024,000 could be recognized in future period as the notes are collected. The Company deferred recognizing this additional gain and recorded an allowance for possible uncollectible notes against the second outstanding note. This uncertainty is based on the significant length of time of this note (over 10 years) and the substantial balance which matures in December 2008 ($519,260).

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

3. ASSETS HELD FOR SALE

At October 3, 1998 the Company was actively pursuing the sale of three restaurants and accordingly reclassified the net fixed assets ($1,625,834) and inventories ($141,948) as 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 2.)

4. INTANGIBLE ASSETS

Intangible assets consist of the following:

	October 3, 1998	September 27, 1997
Goodwill (a)	$6,222,877	$3,802,877
Purchased leasehold rights (b)	652,740	552,740
Noncompete agreements and other (a)	790,000	790,000
Organization costs	678,491	586,954
	8,344,108	5,732,571
Less accumulated amortization	2,829,176	2,386,395
	$5,514,932	$3,346,176

(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 $2,946,000 to goodwill.

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).

During fiscal 1998 the Company acquired a restaurant for $2,735,000 in cash. The acquisition was accounted for as a purchase transaction with the purchase price allocated as follows: leasehold improvements $200,000, furniture, fixtures and equipment $300,000 and goodwill $2,235,000.

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

5. OTHER ASSETS

Other assets consist of the following:

	October 3, 1998	September 27, 1997
Deposits	$ 353,674	$ 408,797
Deferred financing fees	214,192	271,292
Investments in and advances to affiliates (a)	563,367	2,512
	$1,131,233	$ 682,601

(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 $80,000, $40,000, and $48,000, for the years ended October 3, 1998, and September 27, 1997 and September 28, 1996, 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 $421,000, $311,000, and $450,000 for the years ended October 3, 1998, September 27, 1997, and September 28, 1996, respectively (Note 11).

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	October 3, 1998	September 27, 1997
Sales tax payable	$ 928,225	$ 803,805
Accrued wages and payroll related costs	675,520	878,795
Other current liabilities	1,304,021	1,415,756
	$2,907,766	$3,098,356

7. LONG-TERM DEBT

Long-term debt consists of the following:

	October 3, 1998	September 27, 1997
Revolving Credit and Term Loan Facility with interest at the prime rate, plus ½%, payable on April 30, 2000 (a)	$2,600,000	$2,750,000
Notes issued in connection with refinancing of restaurant equipment, at 8.75%, payable in monthly installments through January 2002 (b)	1,990,827	2,538,581
Note issued in connection with acquisition of restaurant site, at 7.25%, payable in monthly installments through January 1, 2000 (c)	423,807	475,554
Note issued in connection with acquisition of restaurant site, at 8.5%, payable in monthly installments through April 2001 (d)	--	362,662
	5,014,634	6,126,797
Less current maturities	609,283	1,424,129
	$4,405,351	$4,702,668

(a) The Company's Revolving Credit and Term Loan Facility with its main bank (Bank Leumi USA), as amended May 1998, includes a $10,000,000 facility to finance the development and construction of new restaurants and for working capital purposes at the Company's existing restaurants. Outstanding loans bear interest at 1/2% above the bank's prime rate. Any outstanding loans on April 2000 are due in full. The Facility also includes a two-year Letter of Credit Facility for use in lieu of lease security deposits. The Company generally is required to pay commissions of 1 1/2% per annum on outstanding letters of credit.

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.

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

Year	Amount
1999	$ 609,283
2000	3,567,899
2001	654,351
2002	183,101
	$5,014,634

During the fiscal years ended October 3, 1998, September 27, 1997 and September 28, 1996, interest expense was $608,278, $931,383 and $515,810, respectively, of which $176,000 and $90,000 was capitalized during the fiscal years ended September 27, 1997 and September 28, 1996.

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 October 3, 1998, future minimum lease payments, net of sublease rentals, under noncancellable leases are as follows:

Year	Operating Leases	Capital Leases
1999	$ 6,828,683	$253,720
2000	6,621,874	154,118
2001	6,724,662	--
2002	6,773,420	--
2003	6,750,061	--
Thereafter	31,493,094	--
Total minimum payments	$65,191,794	407,838
Less amount representing interest		29,400
Present value of net minimum lease payments		$378,438

In connection with the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of $556,130 as security deposits under such leases.

Rent expense was $9,940,639, $9,102,267 and $6,117,296 during the fiscal years ended October 3, 1998, September 27, 1997 and September 28, 1996, respectively. Rent expense for the fiscal years ended October 3, 1998, September 27, 1997 and September 28, 1996 includes approximately $57,000, $19,000 and $10,000 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 $2,769,721, $2,432,404 and $547,038 for the fiscal years ended October 3, 1998, September 27, 1997 and September 28, 1996, 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. 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. The complaint seeks an injunction against further violations of the labor laws and payment of unpaid minimum wages, overtime and other allegedly required amounts, liquidated damages, penalties and attorneys' fees. The Company believes that most of the claims asserted in the his litigation, including those with respect to minimum wages, are insubstantial. The Company believes that there were certain violations of overtime requirements, which have today been largely corrected, for which the Company will have liability. While the Company does not believe that the liability to any single employee for overtime violations will be consequential to it, the Company's aggregate liability will depend in large part on the number of persons who “opt in” to the lawsuit asserting similar violations. This uncertainty prevents the Company from making any reasonable estimate of its ultimate liability. However, based upon information available to the Company at this time, including the fact that as of December 15, 1998 less than two percent (2%) of the persons eligible have in fact opted in, the Company does not believe that the amount of liability which may be sustained in this action will have a materially adverse effect on the Company's business or financial condition.

A lawsuit was commenced against the Company in April 1997 in the District Court for Clark County, Nevada by two former employees 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. One consolidated complaint alleged that the Company unlawfully terminated seven employees and disciplined seven other employees allegedly in retaliation for their union activities. An Administrative Law Judge (ALJ) found that five employees were terminated unlawfully and two were discharged for valid reasons. As far as the discipline, the Judge found that the Company acted legally in disciplining four employees but not lawfully with respect to three employees. The Company has appealed the adverse rulings of the ALJ to the National Labor Relations Board in Washington, D.C. The Company believes that there are reasonable grounds for obtaining a reversal of the unfavorable findings by the ALJ. Another consolidated complaint issued recently alleges that four employees were terminated and three other employees disciplined because of their union activities. A hearing is scheduled on these new charges in January 1999. The Company believes that these affected employees were terminated or disciplined for appropriate reasons such as violating reasonable work rules.

The Company does not believe that an adverse outcome in any of the unfair labor practice charges will have a material adverse effect upon the Company's financial condition or operations. The Company believes that these unfair labor practice charges and the litigation pending in Nevada 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.

An action was commenced in May 1998 in Superior Court of the District of Columbia against the Company and its Washington, D.C. subsidiaries by seven present and former employees of the restaurants owned by such subsidiaries alleging violations of the District of Columbia Wage & Hours Act relating to minimum wages and overtime compensation. 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 have a material adverse effect upon its business or financial condition.

A lawsuit was commenced against the Company in October 1998 in Superior Court of Los Angeles County, California by a former employee alleging that her employment was terminated on the basis of her age in violation of the California Fair Employment and Housing Act. The Company believes that the allegations are without merit.

9. SHAREHOLDERS' EQUITY

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.

COMMON STOCK REPURCHASE PLAN **-** In August 1998 the Company authorized the repurchase of up to 500,000 shares of the Company outstanding common stock. As of October 3, 1998, the company had repurchased 159,000 shares at a total cost of $1,522,496.

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:

	1998 Shares	1998 Weighted Average Exercise Price	1997 Shares	1997 Weighted Average Exercise Price	1996 Shares	1996 Weighted Average Exercise Price
Outstanding, beginning of year	227,500	$ 10.38	105,625	$ 7.18	189,125	$ 5.45
Options:						
Granted	100,000	11.38	150,000	11.71	--	
Exercised	(10,000)	6.50	(17,500)	4.89	(72,500)	2.54
Canceled or expired	(6,000)	8.63	(10,625)	6.37	(11,000)	8.00
Outstanding, end of year (a)	311,500	10.86	227,500	10.38	105,625	7.18
Price Range, Outstanding Shares	$8.00 -	$12.00	$6.50 -	$12.00	$4.38	- $8.00
Weighted Average Years	3.2 Years		3.53 Years		2.67 Years	
Shares available for future grant	20,000		120,000		135,000	
Options exercisable (a)	117,583	10.13	47,500	7.65	43,125	6.34

(a) Options become exercisable at various times until expiration dates ranging from August 1999 through March 2003.

Statement of Financial Accountings Standards 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 the fiscal years ended October 3, 1998, and September 27, 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 1998 include; risk free interest rate of 5.5%; no dividend yield; expected life of 4 years; and expected volatility of 75%. The assumptions for fiscal 1997 include; risk-free interest rate of 6.5%; no dividend yield; expected life of 4 years and expected volatility of 38%.

The pro forma impact was as follows:

	Year Ended	
	October 3, 1998	September 27, 1997
Net earnings as reported	$ 4,612,141	$ 1,737,655
Net earnings - pro forma	4,464,576	1,694,991
Earnings per share as reported - basic	$ 1.21	$ .47
Earnings per share as reported - diluted	1.20	.46
Earnings per share pro forma - basic	1.17	.46
Earnings per share pro forma - diluted	1.16	.45

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 October 3, 1998, September 27, 1997 and September 28, 1996 resulted in income tax benefits of $18,615, $57,580 and $124,956, 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 October 3, 1998, the Company provides management services to five restaurants 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 $12,738,639, $14,151,888 and $12,802,305 during the management periods within the years ended October 3, 1998, September 27, 1997 and September 28, 1996, 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:

	October 3, 1998	Year Ended September 27, 1997	September 28, 1996
Current provision:			
Federal	$1,892,997	$ 668,391	$ 519,771
State and local	1,117,363	908,183	625,570
	3,010,360	1,576,574	1,145,341
Deferred provision (credit):			
Federal	100,486	(329,602)	(592,721)
State and local	(42,105)	(102,364)	(99,771)
	58,381	(431,966)	(692,492)
	$3,068,741	$1,144,608	$ 452,849

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

	October 3, 1998	Year Ended September 27, 1997	September 28, 1996
Provision for Federal income taxes (34%)	$ 2,612,000	$ 980,000	$ 426,000
State and local income taxes net of Federal tax benefit	710,000	532,000	347,000
Amortization of goodwill	26,000	26,000	26,000
Tax credits	(506,000)	(373,000)	(349,000)
Other	226,741	(20,392)	2,849
	$ 3,068,741	$ 1,144,608	$ 452,849

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 carry forwards. The tax effects of items comprising the Company's net deferred tax asset are as follows:

	October 3, 1998	**September 27, 1997**
Deferred tax assets:		
Operating loss carry forwards	$ 839,253	$ 858,937
Operating lease deferred credits	634,516	657,958
Carryforward tax credits	1,086,025	1,157,368
Depreciation and amortization	22,104	11,045
Valuation allowance	(642,522)	(688,768)
	$ 1,939,376	$ 1,996,540

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 carry forwards and operating lease deferred credits. Therefore, the Company provided a valuation allowance of $642,522 at October 3, 1998 and $688,768 at September 27, 1997. The Company has state operating loss carry forwards of $11,094,610 and local operating loss carry forwards of $8,083,505 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 adjustments primarily relate to (i) pre-opening, legal and accounting expenses incurred in connection with new or acquired restaurants that the Internal Revenue Service asserts should have been capitalized and amortized rather than currently expensed and (ii) travel and meal expenses for which the Internal Revenue Service asserts the Company did not comply with certain record keeping requirements of the Internal Revenue Code. 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	
	October 3, 1998	**September 27, 1997**	**September 28, 1996**
Purchasing service fees	$124,455	$ 86,073	$ 55,551
Insurance proceeds (a)	--	377,427	726,415
Sales of logo T-shirts and hats	160,596	171,259	214,291
Other	205,067	145,522	86,460
	$490,118	$780,281	$1,082,717

(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 provided that the third party continue to guarantee some level of operating profits through January 1998. During the fiscal years ended September 27, 1997, the Company received $377,427 and $726,415, respectively, in excess of the continuing restaurant operating expenses.

14. INCOME PER SHARE OF COMMON STOCK

The Company adopted in the first quarter of fiscal 1998, The Financial Accounting Standards Board Statement No. 128, "Earnings per Share," which established new standards for computing and presenting earnings per share. The Company now discloses "Basic Earnings per Share," which is based upon the weighted average number of shares of common stock outstanding during each period and "Diluted Earnings per Share," which requires the Company to include common stock equivalents consisting of dilutive stock options and warrants. The Company also applied the new standard to the periods ended September 27, 1997 and September 28, 1996.

A reconciliation of the numerators and denominators of the basic and diluted per share computations follow.

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended October 3, 1998:			
Basic EPS	$ 4,612,141	3,826,255	$ 1.21
Stock options and warrants	--	25,764	0.01
Diluted EPS	4,612,141	3,852,019	1.20
Year ended September 27, 1997:			
Basic EPS	1,737,655	3,714,116	0.47
Stock options and warrants	--	28,695	0.01
Diluted EPS	1,737,655	3,742,811	0.46
Year ended September 28, 1996:			
Basic EPS	788,762	3,238,419	0.24
Stock options and warrants	--	34,438	--
Diluted EPS	788,762	3,272,857	0.24

15. QUARTERLY INFORMATION (UNAUDITED)

The following table sets forth certain quarterly operating data.

	Fiscal Quarter Ended			
	December 27, 1997	**March 28, 1998**	**June 27 1998**	**October 3 1998**
Net sales	$26,940,384	$25,198,012	$33,029,512	$32,230,545
Gross restaurant profit	19,692,165	18,345,554	24,432,866	23,662,166
Net income (loss)	727,441	(254,154)	2,428,676	1,710,178
Net income (loss) per share - basic and diluted	$ 0.19	$ (0.07)	$ 0.63	$ 0.45

	Fiscal Quarter Ended			
	December 28, 1996	**March 29, 1997**	**June 28 1997**	**September 27, 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 basic and diluted	$ (0.16)	$ (0.29)	$ 0.51	$ 0.38

16. SUBSEQUENT EVENTS (UNAUDITED)

RESTAURANT SALES **-** In the first quarter of fiscal 1999, the Company sold a restaurant located in New York City and a restaurant located in Washington, D.C. for an aggregate selling price of $1,225,000, of which $975,000 was received in cash and $250,000 was financed by notes. The notes are due in monthly installments of $5,537, inclusive of interest at 10%, from May 1999 through April 2004. The Company expects to recognize gains of approximately $600,000 on these sales.

CORPORATE INFORMATION

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Chairman

Michael Weinstein
President

Paul Gordon
Vice President – Director of Las Vegas Operations

Andrew Kuruc
Vice President – Chief Financial Officer

Vincent Pascal
Vice President - Operations

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Vice President – Chief Operating Officer

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