Ark Restaurants Corp.

2003 ANNUAL REPORT

The Company

Ark Restaurants Corp. (the “Registrant” or the “Company”) is a New York corporation formed in 1983. Through its subsidiaries, it owns and operates 24 restaurants and bars, 12 fast food concepts, catering operations, and wholesale and retail bakeries. Initially its facilities were located only in New York City. At this time, 12 of the restaurants are located in New York City, four are located in Washington, D.C., and eight are located in Las Vegas, Nevada. The Company’s Las Vegas operations include three restaurants within the New York-New York Hotel & Casino Resort, and operation of the resort’s room service, banquet facilities, employee dining room and eight food court operations. The Company also owns and operates two restaurants, two bars and four food court facilities at the Venetian Casino Resort, one restaurant at the Neonopolis Center at Fremont Street, and one restaurant within the Forum Shops at Caesar’s Shopping Center.

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, 2003, including financial statements and schedules thereto, to each of the Company’s shareholders of record on February 6, 2004 and each beneficial holder on that date, upon receipt of a written request therefore mailed to the Company’s offices, 85 Fifth Avenue, New York, NY 10003 Attention: Treasurer.

February 5, 2004

Dear Shareholder:

We made good progress last year.

Long term bank debt was reduced by $10 million to a year end balance of $6.9 million. We expect to have no long term debt balance by the June '04 quarter.

The events of September 11, 2001 and the subsequent uncertain economic climate greatly tested our balance statement, and the wisdom of a strong cash position became quite obvious. We were fortunate to have good and growing cash flow from Las Vegas properties. Our plan is that new investment will come from partners willing to accept financial risk while we provide management services. We will be rewarded with management fees and cash flow incentives. This will greatly reduce future balance sheet risk and accommodate the build up of cash, and result in more stable earnings.

Sales from Las Vegas properties in this past year represented more than 50% of corporate revenue. As we expand in Las Vegas and continue operations in other landmark properties, we have learned that operating income from properties in casinos, train stations and public parks is more reliable. With this in mind we will continue with the sale of underperforming assets that do not measure to the criteria of a landmark location.

This past year was difficult in the Northeast. In no particular order we were confronted with an underlying weak economic condition, atrocious weather patterns, a war and a blackout. The war was particular in its effect on Washington, D.C. sales. There was no party business and tourism remained nearly non existent. However, our Washington D.C. properties are very much the type of locations this company should own. Sequoia and the Union Station restaurants are sizable footprints, landmark locations with good lease positions. As Washington recovers, and we see current evidence that this is taking place, there is reasonable expectation that the flow of sales will return. The New York City restaurants are the most difficult at this time. We are not seeing clearly, weather as well as the economy have been blinding, and other than Bryant Park, South Street Seaport and The Grill Room the remaining locations, some of which still provide acceptable returns on investment, are not on a par with those in Las Vegas and Washington. We are presently contemplating the sale of four NYC restaurants where leases have become expensive and cash flow is turning negative. The net effect of these planned actions will be increased EBITDA and increased cash. And if ever again weather and economic conditions improve we should experience an upturn in cash flow from New York.

Las Vegas should continue to grow sales and operating profits. Both New York New York and the Venetian are experiencing increased demand dynamics. This past August we completed the 90 seat expansion of Gallagher's as well as converting our unbranded ice cream to a Ben and Jerry's. Recently we added two new concepts, a Jodi Meroni's Sausage Factory and a Bamboo Express to replace Mango Hut in the fast food court. And in the next quarter we will convert our Village Coffee to a Starbucks. At the Venetian we have finally secured a strong corporate sales force and a much improved fast food management team. Venus and Lutece have also improved throughout the year.

Presently we are in construction to build fast food facilities at two casino properties operated by the Seminole Indian Tribe in Tampa and Hollywood, Florida. We have partners in this venture who assumed the financial risk. We are optimistic that this will be a good project for our partners and the company, and will use this financial structure as a template for future capital investment in projects. In the past we have utilized our own capital as well as landlord contributions. While we have had many successes we have also experienced failure and losses. By shifting financial risk, we will bring stability to our balance sheet, and more risk adjusted opportunity to the company. This model most likely will be welcomed by our shareholders and our shares.

We have a highly motivated and focused group of people employed at this company. I thank them all the time for their efforts and loyalty.

Sincerely,

Michael Weinstein, President

ARK RESTAURANTS CORP.

Corporate Office
Michael Weinstein, President and Chief Executive Officer
Robert Towers, Executive Vice President, Chief Operating Officer and Treasurer
Robert Stewart, Chief Financial Officer
Vincent Pascal, Senior Vice President-Operations and Secretary
Paul Gorden, Senior Vice President-Director of Las Vegas Operations
Walter Rauscher, Vice President-Corporate Sales & Catering
Nancy Alvarez, Controller
Kathryn Green, Controller-Las Vegas Operation
Marilyn Guy, Director of Human Resources
Colleen Hennigan, Director of Operations-Washington Division
John Oldweiler, Director of Purchasing
Jennifer Sutton, Director of Operations and Financial Analysis
Joe Vasquez, Director of Facilities Management
Etty Scaglia, Director of Tour & Travel Sales
Evyette Ortiz, Director of Marketing

Associate
Andre Soltner, Lutece

Corporate Executive Chef
Bill Lalor

Executive Chefs
Chun Liao, Washington D.C.
Damien McEvoy, Las Vegas

Restaurant General Managers-New York
Liz Caro, The Grill Room
Debra Lomurno, America
David Feau, Lutece
Daisy Nova, Columbus Bakery I
Patricia Almonte, Columbus Bakery II
Stephanie Almonte, Columbus Bakery III
Kelly Gallo, Canyon Road
Bridgeen Hale, Metropolitan Café
Jennifer Baquierzo, El Rio Grande
Debra Lomurno, Sequoia
Donna Simms, Bryant Park Grill
Ridgley Trufant, Red
Ana Harris, Gonzalez y Gonzalez
Brian Ziffin, Jack Rose

Restaurant General Managers-Washington D.C.

Kyle Carnegie, Sequoia
Bender Ganiao, Thunder Grill
Matt Mitchell, America & Center Café

Restaurant Managers-Las Vegas
Rick Simmons, The Saloon
Charles Gerbino, Las Vegas Employee Dining Facility
Kristen Shubert, Gallagher's
Paul Savoy, Village Streets
John Hausdorf, Las Vegas Room Service
Evan Wald, Tsunami Grill
Mary Massa, Gonzalez y Gonzalez
Marcel Serapio, America
John Page, Las Vegas Catering
David Simmons, Stage Deli
Claude Cevasco, Lutece

Restaurant Chefs-New York
Henry Chung, Jack Rose
Armando Cortes, The Grill Room
David Feau, Lutece
Rosalio Fuentes, Metropolitan Café
Carlos Garcia, Sequoia
Santiago Moran, Red
Virgilio Ortega, Columbus Bakery
Fermina Ramirez, El Rio Grande
Ruperto Ramirez, Canyon Road Grill
John McBride, America
Mariano Veliz, Gonzalez y Gonzalez
Gadi Weinreich, Bryant Park Grill

Restaurant Chefs-Washington D.C.
Michael Foo, America & Center Café
Chun Liao, Sequoia

Restaurant Chefs-Las Vegas
David Abraczinskas, Stage Deli
Arvy Dumbrys, America
Florence Duff, Tsunami Grill
Pedro Gonzalez, Vico's Burritos
Luigi Guiga, Gallagher's
Hector Hernandez, Banquet
John Miller, The Saloon
Frederic Labonne, Lutece
Robert Schwartz, Las Vegas Employee Dining Facility
Sergio Salazar, Gonzalez y Gonzalez

Selected Consolidated Financial Data

The following table sets forth certain financial data for the fiscal years ended in 1999 through 2003. This information should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto beginning at page F-1.

	Years Ended				
	September 27, 2003	September 28, 2002	September 29, 2001	September 30, 2000	October 2, 1999
	(In thousands, except per share data)				
OPERATING DATA:					
Total revenue	$ 116,593	$ 115,657	$ 127,553	$ 119,887	$ 111,884
Cost and expenses	(112,632)	(109,183)	(135,591)	(123,729)	(104,836)
Operating income (loss)	3,961	6,474	(8,038)	(3,842)	7,048
Other income (expense), net	414	(826)	(2,152)	(1,598)	23
Income (loss) before provision for income taxes and cumulative effect of accounting change	4,375	5,648	(10,190)	(5,440)	7,071
Provision (benefit) for income taxes	1,056	1,419	(3,342)	(1,906)	2,576
Income (loss) before cumulative effect on accounting change	3,319	4,229	(6,848)	(3,534)	4,495
Cumulative effect of accounting charge—net	-	-	-	(189)	-
NET INCOME (LOSS)	3,319	4,229	(6,848)	(3,723)	4,495
NET INCOME (LOSS) PER SHARE:					
Basic	$ 1.04	$ 1.33	$ (2.15)	$ (1.17)	$ 1.30
Diluted	$ 1.03	$ 1.32	$ (2.15)	$ (1.17)	$ 1.29
Weighted average number of shares					
Basic	3,181	3,181	3,181	3,186	3,461
Diluted	3,213	3,206	3,181	3,186	3,476
BALANCE SHEET DATA (end of period):					
Total assets	$ 43,635	$ 47,960	$ 53,091	$ 66,297	$ 46,709
Working capital (deficit)	(4,802)	(7,990)	(6,569)	(5,640)	(3,714)
Long-term debt	7,226	9,547	21,700	24,447	6,683
Shareholders' equity	24,826	21,446	17,173	24,065	28,843
Shareholders' equity per share	7.80	6.74	5.40	7.55	8.33
Facilities in operations—end of year, including managed	41	41	47	49	42

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, 2003, September 28, 2002 and September 29, 2001 each included 52 weeks.

Revenues

Total revenues at restaurants owned by the Company increased by 0.8% from fiscal 2002 to fiscal 2003 and decreased by 9.4% from fiscal 2001 to fiscal 2002. Of the $936,000 increase in revenues from fiscal 2002 to fiscal 2003, $585,000 is attributable to the recognition of a previously deferred gain on the sale of a restaurant in October 1997 resulting from the resolution of concerns regarding the Company's ability to collect a note received in connection with the sale. A review of the performance of this note and the security underlying it indicated that the loss was no longer probable.

Same store sales increased 1.1 %, or $1,230,000, on a Company-wide basis from fiscal 2002 to fiscal 2003. This increase was the result of an 8.4%, or $4,491,000, increase in same store sales at the Company's Las Vegas restaurants offset by decreases in same store sales in New York and Washington D.C. of 5.0% and 8.3%, respectively. The decreases in New York and Washington D.C. were principally due to the residual effects on tourism of the terrorist attacks on September 11th, the sluggish economy in these markets and record rainfalls in these areas during late spring and early summer 2003 which limited the use of outdoor café seating. Menu prices did not significantly change during fiscal 2003.

During the fourth quarter of 2002 the Company abandoned its restaurant and food court operations at the Desert Passage, the retail complex at the Aladdin Resort & Casino in Las Vegas. During fiscal 2002 sales decreased 42.9% at this location compared to fiscal 2001, resulting in the Company's decision to abandon these operations. If this decrease is excluded from same store Las Vegas sales, the Company's remaining operations in Las Vegas experienced a sales increase of $190,000 during fiscal 2002.

Of the $11,896,000 decrease in revenues from fiscal 2001 to fiscal 2002, $3,282,000 is attributable to the year long closure of the *Grill Room* restaurant located in 2 World Financial Center, an office building adjacent to the World Trade Center site. This restaurant was damaged in the September 11, 2001 attack and reopened in early fiscal 2003. A $256,000 increase in sales is attributable to the opening of the *Saloon* at the Neonopolis Center in downtown Las Vegas.

Same store sales decreased 6.7% or $8,262,000, on a Company-wide basis from fiscal 2001 to fiscal 2002. The decrease in same store sales was 3.3% in Las Vegas, 8.1% in New York and 13.7% in Washington D.C. Such decreases were principally due to a decrease in customer counts. The change in menu prices did not significantly affect revenues. The Company believes its fiscal 2002 revenues compared to fiscal 2001 were adversely affected by the terrorist attacks on September 11th, the residual effects on tourism and the sluggish economy. While Las Vegas has rebounded considerably in the past year, New York and Washington continue to experience soft sales.

Other operating income, which consists of the sale of merchandise at various restaurants, management fee income, door sales and for fiscal 2003 the reversal of the previously mentioned provision, was $1,337,000 in fiscal 2003, $550,000 in fiscal 2002, and $546,000 in fiscal 2001.

Costs and Expenses

Food and beverage cost of sales as a percentage of total revenue was 25.1% in fiscal 2003, 24.9% in fiscal 2002 and 25.5% in fiscal 2001.

Total costs and expenses increased by $3,449,000, or 3.2%, from fiscal 2002 to fiscal 2003. Increases in rent, advertising and maintenance contributed to this increase. During the first quarter of fiscal 2002 rent concessions granted by landlords in the aftermath of the September 11, 2001 disaster were in place. These concessions were not available during fiscal 2003 and as a result of this, and other slight increases in rent levels, rent expense for fiscal 2003 increased by $224,000 when compared to fiscal 2002. Also, sales increases in restaurants where the Company pays a percentage rent resulted in an increase in percentage rent of $168,000 during fiscal 2003 compared to fiscal 2002. During fiscal 2003 advertising expenses increased by $623,000 over fiscal 2002 as a result of increased advertising for the Lutece restaurant in New York and additional advertising for the operations in Las Vegas. Maintenance expenses increased by $548,000 during fiscal 2003 compared to fiscal 2002. After September 11, 2001 discretionary spending was sharply restricted. Though the Company has continued to keep tight control over spending, maintenance of restaurants has been performed when required and maintenance delayed during fiscal 2002 has been completed.

Total costs and expenses decreased by $26,408,000, or 19.5%, from fiscal 2001 to fiscal 2002. The main reasons for this decrease in total costs and expenses include the reduction in payroll expenses of $7,673,000 from fiscal 2001 to fiscal 2002 as a result of the Company's response to the events of September 11, 2001 and the continued weakened economy. Food and beverage costs decreased $3,755,000 resulting from the decrease in food and beverage sales of $11,900,000. Additionally, during fiscal 2001, total costs and expenses were adversely affected by an asset impairment charge of $10,045,000 associated with the write down of the Company's Desert Passage restaurant and food court operations. Total costs and expenses were also impacted in fiscal 2001 by a charge of $935,000 due to the cancellation of a development project.

Payroll expenses as a percentage of total revenues was 33.1% in fiscal 2003 compared to 32.3% in fiscal 2002 and 35.3% in fiscal 2001. Payroll expense was $38,583,000, $37,412,000 and $45,085,000 in fiscal 2003, 2002 and 2001, respectively. The Company aggressively adapted its cost structure in response to lower sales expectations following September 11th and continues to review its cost structure and make adjustments where appropriate. Head count stood at 2,003 as of year end 2003 compared to 1,959 and 2,070 at year-end 2002 and 2001 respectively. Severance pay to key personnel was approximately $250,000 during fiscal 2002.

No pre-opening expenses and early operating losses were incurred during fiscal 2003 or 2002. The Company received a construction and operating allowance from the landlord for the Saloon at the Neonopolis Center at Freemont Street in downtown Las Vegas, the one restaurant opened in fiscal 2002. The Company incurred pre-opening and early operating losses at newly opened restaurants of approximately $100,000 in fiscal 2001. The Company typically incurs significant pre-opening expenses in connection with its new restaurants that 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 total revenue, were 5.7% in fiscal 2003, 5.7% in fiscal 2002 and 5.5% in fiscal 2001. General and administrative expenses were adversely impacted by a $370,000 increase in casualty insurance costs during fiscal 2002. General and administrative expenses in fiscal 2001 were impacted by $400,000 in legal expenses incurred in connection with a potential transaction.

The Company managed one restaurant it did not own (*El Rio Grande*) at September 27, 2003, September 28, 2002 and September 29, 2001. Sales of this restaurant, which are not included in consolidated sales, were $2,765,000 in fiscal 2003, $2,973,000 in fiscal 2002 and $4,380,000 in fiscal 2001. The Company recently entered into agreements to manage 11 fast food restaurants located in the Hard Rock Casinos in Hollywood and Tampa, Florida.

Interest expense was $732,000 in fiscal 2003, $1,212,000 in fiscal 2002 and $2,446,000 in fiscal 2001. The significant decrease from fiscal 2002 to fiscal 2003 and from fiscal 2001 to fiscal 2002 is due to lower outstanding borrowings on the Company's credit facility and the benefit from rate decreases in the prime-borrowing rate. Interest income was $163,000 in fiscal 2003, $133,000 in fiscal 2002 and $150,000 in fiscal 2001.

Other income, which generally consists of purchasing service fees and other income at various restaurants was $983,000, $253,000 and $144,000 for fiscal 203, 2002 and 2001, respectively. Other income was impacted during fiscal 2003 by the Company receipt of $508,000 in World Trade Center Grants for four restaurants located in downtown New York that were adversely impacted by the September 11, 2001 terrorist attacks.

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 operating 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. Due to losses incurred in fiscal 2001 and the carry back of such losses, the Company realized an overall tax benefit of 32.8% of such losses in fiscal 2001. During fiscal 2002 the Company abandoned its restaurant and food court operations at the Desert Passage, the retail complex at the Aladdin Resort & Casino in Las Vegas. In fiscal 2002, the Company was able to utilize the deferred tax asset created in fiscal 2001, by the impairment of these operations. The Company's effective tax rate for fiscal 2003 was 24.1%. During the year ended September 27, 2003, the Company decreased its allowance for the utilization of the deferred tax asset arising from state and local operating loss carryforwards by $445,000 in the current year based on the merger of certain unprofitable subsidiaries into profitable ones.

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 and the utilization of state and local net operating loss carry forwards. Nevada has no state income tax and other states in which the Company operates have income tax rates substantially lower in comparison to New York. In order to utilize more effectively tax loss carry forwards at restaurants that were unprofitable, the Company has merged certain profitable subsidiaries with certain loss subsidiaries.

The Revenue Reconciliation Act of 1993 provides tax credits to the Company for FICA taxes paid by the Company on tip income of restaurant service personnel. The net benefit to the Company was $793,000 in fiscal 2003, $741,000 in fiscal 2002 and $489,000 in fiscal 2001.

During fiscal 2002, the Company and the Internal Revenue Service finalized the adjustments to the Company's Federal income tax returns for fiscal years 1995 through 1998. The settlement did not have a material effect on the Company's financial statements.

Liquidity and Sources of Capital

The Company's primary source of capital has been cash provided by operations and funds available from its main bank, Bank Leumi USA. The Company from time to time also utilizes equipment financing in connection with the construction of a restaurant and seller financing in connection with the acquisition of a restaurant. The Company utilizes capital primarily to fund the cost of developing and opening new restaurants, acquiring existing restaurants owned by others and remodeling existing restaurants owned by the Company.

The net cash used in investing activities in fiscal 2003 of ($1,851,000) was used for the expansion of an existing restaurant in Las Vegas and for the replacement of fixed assets at existing restaurants. The net cash used in investing activities in fiscal 2002 ($153,000) was primarily used for the replacement of fixed assets at existing restaurants. The net cash used in investing activities in fiscal 2001 ($1,891,000) was principally used for the Company's continued investment in fixed assets associated with constructing new restaurants. In fiscal 2001 the Company opened two bars at the Venetian in Las Vegas, Nevada (*V-Bar and Venus*).

The net cash used in financing activities in fiscal 2003 ($8,356,000), fiscal 2002 ($8,072,000) and fiscal 2001 ($5,618,000) was principally due to repayments of long-term debt on the Company's main credit facility in excess of borrowings on such facility.

The Company had a working capital deficit of $4,802,000 at September 27, 2003 as compared to a working capital deficit of $7,990,000 at September 28, 2002. 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 (the "Facility") with its main bank (Bank Leumi USA), as amended in November 2001, December 2001 April 2002, and February 2003, included a $26,000,000 credit line to finance the development and construction of new restaurants and for working capital purposes at the Company's existing restaurants. On July 1, 2002, the Facility converted into a term loan in the amount of $17,890,000 payable in 36 monthly installments of approximately $497,000. Upon amendment in February 2003, the term loan was converted into a revolving loan. The credit line was reduced to $11,500,000 on June 29, 2003 and $8,500,000 on September 29, 2003 until the maturity date of February 12, 2005. The Company had borrowings of $6,975,000 outstanding on this facility at September 27, 2003. The loan bears interest at ½% above the bank's prime rate and at September 27, 2003 and September 28, 2002, the interest rate on outstanding loans was 4.50% and 5.25% respectively. The Facility also includes a $500,000 Letter of Credit Facility for use in lieu of lease security deposits. The Company has delivered $495,000 in irrevocable letters of credit on this Facility at September 27, 2003. The Company generally is required to pay commissions of 1½% per annum on outstanding letters of credit.

The Company's subsidiaries each guaranteed the obligations of the Company under the Facility 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 Facility.

The Facility includes restrictions relating to, among other things, indebtedness for borrowed money, capital expenditures, mergers, sale of assets, dividends and liens on the property of the Company. The Facility also requires the Company to comply with certain financial covenants at the end of each quarter such as minimum cash flow in relation to the Company's debt service requirements, ratio of debt to equity, and the maintenance of minimum shareholders' equity.

At September 29, 2001, the Company was not in compliance with several of the requirements of the Facility principally due to the impairment charges incurred in connection with its restaurant and food service operations at the Aladdin in Las Vegas, Nevada. The Company received a waiver from the bank to cure the non-compliance. In December 2001, the covenants were amended for forthcoming periods. During the year ended September 27, 2003, the Company violated covenants related to a limitation on employee loans and maintaining minimum cash flow in relation to the Company’s debt service requirements. The Company received waivers from the bank for the covenants it was not in compliance with, for the year ended September 27, 2003 and through December 30, 2003.

In April 2000, the Company borrowed $1,570,000 from its main bank at an interest rate of 8.8% to refinance the purchase of various restaurant equipment at the Venetian. The note which is payable in 60 equal monthly installments through May 2005, is secured by such restaurant equipment. At September 27, 2003 the Company had $601,000 outstanding on this facility.

The Company entered into a sale and leaseback agreement with GE Capital for $1,652,000 in November 2000 to refinance the purchase of various restaurant equipment at its food and beverage facilities in a hotel and casino in Las Vegas, Nevada. The lease bears interest at 8.65% per annum and is payable in 48 equal monthly installments of $32,000 until maturity in November 2004 at which time the Company has an option to purchase the equipment for $519,000. Alternatively, the Company can extend the lease for an additional 12 months at the same monthly payment until maturity in November 2005 and repurchase the equipment at such time for $165,000.

The Company originally accounted for this agreement as an operating lease and did not record the assets or the lease liability in the financial statements. During the year ended September 29, 2001, the Company recorded the entire amount payable under the lease as a liability of $1,600,000 based on the anticipated abandonment of the Aladdin operations. In 2002, the operations at the Aladdin were abandoned and at September 27, 2003 $874,000 remained accrued in other current liabilities representing future operating lease payments.

In September 2001, a subsidiary of the Company entered into a lease agreement with World Entertainment Centers LLC regarding the leasing of premises at the Neonopolis Center at

Freemont Street for the restaurant Saloon. The Company provided a lease guaranty ("Guaranty") to induce the landlord to enter into the lease agreement. The Guaranty is for a term of two years from the date of the opening of the Saloon, May 2002, and during the first year of the Guaranty was in the amount of $350,000. Upon the first anniversary of the opening of the Saloon, May 2003, the Guaranty was reduced to $175,000 and it will expire in May 2004.

Contractual Obligations and Commercial Commitments

To facilitate an understanding of our contractual obligations and commercial commitments, the following data is provided:

	Payments Due by Period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
	(in thousands of dollars)				
Contractual Obligations:					
Long Term Debt	$ 7,576	$ 350	$ 7,226	$ -	$ -
Operating Leases	46,572	7,988	15,727	8,751	14,106
Total Contractual Cash Obligations	$ 54,148	$ 8,338	$ 22,953	$ 8,751	$ 14,106

	Amount of Commitment Expiration Per Period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
	(in thousands of dollars)				
Other Commercial Commitments:					
Letters of Credit	$ 500	$ -	$ 500	$ -	$ -
Total Commercial Commitments	$ 500	$ -	$ 500	$ -	$ -

Restaurant Expansion

The Company did not open any new restaurants in fiscal 2003. In fiscal 2002 the Company opened one restaurant at the Neonopolis Center at Freemont Street in downtown Las Vegas, Nevada (*The Saloon*). The Company opened two bars (*V-Bar and Venus*) at the Venetian in Las Vegas, Nevada in fiscal 2001.

Critical Accounting Policies

The preparation of financial statements requires the application of certain accounting policies, which may require the Company to make estimates and assumptions of future events. 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 actual results could differ from those estimates. Although 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, differences in actual results could be material to the financial statements.

The Company's significant accounting policies are more fully described in Note 1 to the Company's financials. Below are listed certain policies that management believes are critical.

Long-Lived Assets - The Company annually assesses any impairment in value of long-lived assets to be held and used. The Company evaluates the possibility of impairment by comparing anticipated undiscounted cash flows to the carrying amount of the related long-lived assets. If such cash flows are less than carrying value the Company then reduces the asset to its fair value. Fair value is generally calculated using discounted cash flows. Various factors such as sales growth and operating margins and proceeds from a sale are part of this analysis. Future results could differ from the Company's projections with a resulting adjustment to income in such period.

Deferred Income Tax Valuation Allowance – The Company provides such allowance due to uncertainty that some of the deferred tax amounts may not be realized. Certain items, such as state and local tax loss carry forwards, are dependent on future earnings or the availability of tax strategies. Future results could require an increase or decrease in the valuation allowance and a resulting adjustment to income in such period.

Accounting for Goodwill and Other Intangible Assets

During 2001, the FASB issued FAS 142, which requires that for the Company, effective September 28, 2002, goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life, cease amortizing. FAS 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of the reporting unit (the Company is being treated as one reporting unit) with its net book value (or carrying amount), including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The impairment test for other intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Determining the fair value of the reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of the reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. To assist in the process of determining goodwill impairment, the Company obtains appraisals from independent valuation firms. In addition to the use of independent valuation firms, the Company performs internal valuation analyses and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rate reflecting the risk inherent in future cash flows, perpetual growth rate, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. Based on the above policy, no impairment charge was recorded upon adoption or during the year ended September 27, 2003.

Recent Developments

The Financial Accounting Standards Board has recently issued the following accounting pronouncements:

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, supersedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The Company adopted this standard in the first quarter of fiscal year 2003. The adoption of this standard did not have a material impact on the Company's financial statements; however, the Company will be required to separately disclose the results of closed restaurants as discontinued operations in the future.

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* was issued in July 2002. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of the Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial statements.

FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* was issued in November 2002. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while disclosure requirements are effective for interim or annual periods ending after December 15, 2002. The Company adopted this standard in the first quarter of fiscal year 2003. The adoption of this standard did not have a material impact on the Company's financial statements (see Note 8).

SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* was issued in December 2002. This statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the disclosure-only provisions of SFAS No. 123 (see Note 10).

FIN No. 46, *Consolidation of Variable Interest Entities,* was issued on January 17, 2003. Such Interpretation addresses consolidation of entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risks and rewards. The Interpretation provides guidance related to identifying variable interest entities and determining whether such entities should be consolidated. In October 2003, the effective date of FIN No. 46 was deferred for variable interests held by public companies in all entities that were acquired prior to February 1, 2003. The deferral revised the effective date for consolidation of these entities for the Company to the quarter ended December 27, 2003. The Company believes the adoption of this standard will not have a material effect on its financial statements.

SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*" amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have a material impact on the Company's financial statements.

SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. This statement was adopted by the Company in the quarter ended September 27, 2003, and it did not have a material impact on the Company's financial statements.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates with respect to its outstanding credit agreement with its main bank, Bank Leumi USA. Outstanding loans under the agreement bear interest at prime plus one-half percent. Based upon a loan balance of $6,975,000 (at September 27, 2003), a 100 basis point change in interest rates would change annual interest expense by $69,750.

Market Information

The Company's Common Stock, $.01 par value, is traded in the over-the-counter market on the Nasdaq National Market under the symbol "ARKR." The high and low sale prices for the Common Stock from October 1, 2001 through September 27, 2003 are as follows:

Calendar 2001	High	Low
Fourth Quarter	$ 10.00	$ 6.75
Calendar 2002		
First Quarter	8.00	6.10
Second Quarter	8.15	6.41
Third Quarter	8.49	6.60
Fourth Quarter	7.42	6.05
Calendar 2003		
First Quarter	7.24	5.75
Second Quarter	7.75	6.20
Third Quarter	11.99	7.45

Dividends

The Company has not paid any cash dividends since its inception and does not intend to pay dividends in the foreseeable future.

Number of Shareholders

As of December 21, 2003, there were 65 holders of record of the Company's Common Stock, $.01 par value. This does not include the number of persons whose stock is in nominee or "street name" accounts through brokers.