Ark Restaurants Corp.

2004 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 22 restaurants and bars, 26 fast food concepts, catering operations, and wholesale and retail bakeries. Initially its facilities were located only in New York City. At this time, nine of the restaurants are located in New York City, four are located in Washington, D.C., and nine 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 nine food court operations;

-- 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 October 2, 2004, including financial statements and schedules thereto, to each of the Company's shareholders of record on March 4, 2005 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.

March 3, 2005

Dear Shareholder:

For several years your company has focused on debt reduction and maximization of cash flow from operations. This past year we succeeded in eliminating all long term debt, we had a cash position of $4,435,000 at October 2, 2004 and we increased EBITDA from continuing operations to $13,803,000. We also instituted a dividend policy of $1.40 per share annually, paid $0.35 per share quarterly. Strong comparative same store sales, ideal spring/summer weather conditions in the New York and Washington, D.C. markets, a better underlying economy, the further reduction of secondary properties from our portfolio and the effort by management to achieve a lower cost structure supported this strong performance.

The primary negative in our year was increased commodity prices for beef, dairy and poultry. Cost of Goods sold by the Company increased to 25.73% of sales as compared to 24.88% of sales in the prior year. Our resolve is to deliver a quality value proposition to our customers. Despite strong demand for our products this past year, we were hesitant to raise prices until we had the time to understand market trends, enabling a rational price approach. We raised selective menu item prices to our customers late in our third quarter. The increase was modest, but necessary, and to date has had no adverse consequence to our business.

We are strongly aligned to a conservative discipline. We primarily operate in Las Vegas, New York City and Washington, D.C. We seek only landmark properties with good lease positions. We have, over the years, observed and been educated to the fact that operating income from properties in casinos, public parks and train stations is more reliable that that of our past portfolio. Our plan remains that investment for new operations will come from partners willing to accept capital risk while we will be paid for management services, which includes cash flow incentives. We will not risk our balance sheet; there is wisdom in a strong financial position. We believe this approach will produce the greatest shareholder value by producing the greatest free cash flow.

While we seek further opportunity, we are currently committed to only one new project, the building of a Gallagher's Steak House and yet unnamed bar and lounge at the Resorts International Hotel in Atlantic City, New Jersey. This hotel-casino property fits our profile and, with an excellent management team, is well positioned for the next phase of development and growth in their market. There is a minimal requirement of your company's capital for construction and we will be in operation in late summer of 2005.

We made significant additions to our Board of Directors in the past two years.

Arthur Stainman is a senior managing director of First Manhattan Co. of New York City, a money management firm, and has over twenty years experience managing money for high net worth individuals. Mr. Stainman was elected director of the company in 2004.

Edward Lowenthal has been the President of Ackeman Management, LLC, a real estate investment firm, since April of 2002 and, prior to that, was the President of Wellsford Real Properties, also a real estate investment firm, and predecessor companies, from October 1986 through March 2002. Mr. Lowenthal was elected director of the company in 2004.

Marcia Allen was elected a director of the company in 2003. For the past five years, Ms. Allen has been the President of Allen & Associates Inc., a business and acquisition consulting firm. Also, from December 2001 to August 2002 Ms. Allen served as President and a member of the board of directors of Accesspoint Inc.

Steven Shulman was elected a director of the company in December 2003. During the past five years, Mr. Shulman has been the managing director of Hampton Group Inc., a company engaged in the business of making private investments. Mr. Shulman also serves as a director of Paragon Technologies Inc. and various private companies.

Every year brings new challenges. Significant this year will be compliance with Section 404 of Sarbanes-Oxley legislation. Conforming to these new regulations, including new specific record keeping procedures and an annual evaluation of internal controls by management and independent auditors, will be time consuming and our audit fees will substantially increase. These new regulations, which are intended in the best interests of shareholders, are particularly burdensome for operations of a company our size. We will fulfill the requirements of this legislation in a timely manner.

I have said in the past we are good managers of your business. Your employees are dedicated and committed to excellence. This is the only way for us.

Sincerely,

Michael Weinstein,

Chairman, Chief Executive Officer and 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 Gordon, 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
Evyette Ortiz, Director of Marketing
Michael Buck, General Counsel

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
Patricia Almonte, Columbus Bakery I
Rosana Skeeter, Columbus Bakery II
Stephanie Torres, 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

Restaurant General Managers-Washington D.C.
Kyle Carnegie, Sequoia
Bender Gamiao, Thunder Grill
Matt Mitchell, America & Center Café

Restaurant Managers-Las Vegas
David Casey, The Saloon
Charles Gerbino, Las Vegas Employee Dining Facility
Larry Downey, Gallagher's
Paul Savoy, Village Streets

John Hausdorf, Las Vegas Room Service
Katerina Avila, Tsunami Grill
Mary Massa, Gonzalez y Gonzalez
Marcel Serapio, America
Lia Rispoli, Las Vegas Catering
Robert Schwartz, Stage Deli
Claude Cevasco, Lutece

Restaurant Chefs-New York
Armando Cortes, The Grill Room
Rosalio Fuentes, Metropolitan Café
Santiago Pascual, Sequoia
Santiago Moran, Red
Virgilio Ortega, Columbus Bakery
Fermina Ramirez, El Rio Grande
Ruperto Ramirez, Canyon Road Grill
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
Andreas Baecker, Lutece
Ernesto Suemaga, Las Vegas Employee Dining Facility
Sergio Salazar, Gonzalez y Gonzalez

Selected Consolidated Financial Data

The table on the following page sets forth certain financial data for the fiscal years ended in 2000 through 2004. During fiscal year and 2004, the Company sold three of its restaurants, closed one restaurant and considered one restaurant held for sale in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). The operations of these restaurants have been presented as discontinued operations for the 2004 fiscal year, and the Company has reclassified its statements of operations data for the prior periods presented below, in accordance with FAS 144. 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				
	October 2, 2004	September 27, 2003	September 28, 2002	September 29, 2001	September 30, 2000
	(In thousands, except per share data)				
OPERATING DATA:					
Total revenue	$ 115,698	$ 102,733	$ 101,625	$ 106,844	$ 103,385
Cost and expenses	(106,081)	(96,980)	(95,153)	(101,198)	(100,669)
Operating income	9,617	5,753	6,472	5,646	2,716
Other income (expense), net	543	403	(607)	(2,223)	(1,621)
Income from continuing operations before provision for income taxes and cumulative effect of accounting change	10,160	6,156	5,865	3,423	1,095
Provision for income taxes	2,804	1,486	1,474	1,123	384
Income from continuing operations before the cumulative effect of accounting change	7,356	4,670	4,391	2,300	711
Loss from discontinued operations before provision for income taxes and the cumulative effect of accounting change	(965)	(1,781)	(217)	(13,614)	(6,535)
Benefit for income taxes	(266)	(430)	(55)	(4,466)	(2,290)
Income from discontinued operations before the cumulative effect of accounting change	(699)	(1,351)	(162)	(9,148)	(4,245)
Cumulative effect of accounting charge—net	-	-	-	-	(189)
NET INCOME (LOSS)	6,657	3,319	4,229	(6,848)	(3,723)
NET INCOME (LOSS) PER SHARE:					
Continuing operations basic	$ 2.22	$ 1.46	$ 1.38	$ 0.72	$ 0.16
Discontinued operations basic	$ (0.21)	$ (0.42)	$ (0.05)	$ (2.88)	$ (1.33)
Net basic	$ 2.01	$ 1.04	$ 1.33	$ (2.16)	$ (1.17)
Continuing operations diluted	$ 2.13	$ 1.45	$ 1.37	$ 0.72	$ 0.16
Discontinued operations diluted	$ (0.20)	$ (0.42)	$ (0.05)	$ (2.88)	$ (1.33)
Net diluted	$ 1.93	$ 1.03	$ 1.32	$ (2.16)	$ (1.17)
Weighted average number of shares					
Basic	3,305	3,181	3,181	3,181	3,461
Diluted	3,444	3,213	3,206	3,186	3,476
BALANCE SHEET DATA (end of period):					
Total assets	$ 44,894	$ 43,635	$ 47,960	$ 53,091	$ 66,297
Working capital (deficit)	1,263	(4,802)	(7,990)	(6,569)	(5,460)
Long-term debt	-	7,226	9,547	21,700	24,447
Shareholders' equity	34,200	24,826	21,446	17,173	24,065
Shareholders' equity per share	10.08	7.80	6.74	5.40	7.55
Facilities in operations—end of year, including managed	48	41	41	47	49

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 Company reports fiscal years under a 52/53-week format. This reporting method is used by many companies in the hospitality industry and is meant to improve year-to-year comparisons of operating results. Under this method, certain years will contain 53 weeks. The fiscal years ended September 27, 2003 and September 28, 2002 each included 52 weeks. The fiscal year ended October 2, 2004 included 53 weeks.

Overview

In connection with the consummated sale of three of the Company's restaurants, the closure of one restaurant and the proposed sale of another restaurant, the operations of these restaurants have been presented as discontinued operations for the fiscal year ended 2004, and the Company has reclassified its statements of operations data for the prior periods presented below, in accordance with FAS 144.

Revenues

Total revenues at restaurants owned by the Company increased by 12.6% from fiscal 2003 to fiscal 2004 and increased by 1.1% from fiscal 2002 to fiscal 2003.

Same store sales increased 10.3%, or $12,984,000, on a Company-wide basis from fiscal 2003 to fiscal 2004. This increase was the result of a 12.2%, or $7,242,000, increase in same store sales at the Company's Las Vegas restaurants, an 11.5%, or $3,560,000, increase in same store sales at the Company's New York restaurants and a 14.3%, or $2,182,000, increase in same store sales at the Company's Washington D.C. restaurants. The increases in New York and Washington D.C. were principally due to the a general improvement in economic conditions, the public's willingness and inclination to resume vacation and convention travel and unusually good weather in these areas during spring and summer of 2004 which enabled the Company to use additional seating in its outdoor cafés. Although the Company had not raised the price of menu items offered to its customers for several years due to business conditions, the impact of the increase in food costs during 2004 caused the Company to review the price of menu items offered to its customers. The Company determined during 2004 to increase the price of menu items offered to its customers in specific locations where the Company believed consumer demand has created some elasticity.

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.

Other operating income, which consists of the sale of merchandise at various restaurants, management fee income, door sales was $850,000 in fiscal 2004, $679,000 in fiscal 2003 and $474,000 in fiscal 2002.

Costs and Expenses

Food and beverage cost of sales as a percentage of total revenue was 25.5% in fiscal 2004, 24.7% in fiscal 2003 and 24.5% in fiscal 2002. Although this expense as a percentage of total revenue increased from fiscal 2003 to 2004, strong sales during fiscal 2004 allowed the Company the opportunity to create relationships with new suppliers and increase the price of menu items offered to its customers in specific locations where the Company believed consumer demand has created some elasticity to offset increased food costs.

Total costs and expenses increased by $9,101,000, or 9.4%, from fiscal 2003 to fiscal 2004. Increases in food costs, rent and payroll, as a result of the increase in total revenues**,** contributed to this increase. Sales increases in restaurants where the Company pays a percentage rent resulted in an increase in percentage rent of $787,000 during fiscal 2004 compared to fiscal 2003. Other operating costs and expenses also increased in fiscal 2004 due to the increase in total revenue and a one time charge of $270,000 used to pay for casino entertainment tax liability. The Company had previously thought that certain of its operations at the *Venetian Hotel Resort Casino* were exempt from casino entertainment tax due to the fact that such operations were not on the casino floor. As subsequent tax ruling by tax authorities determined that such operations were subject to casino entertainment tax and the Company determined to include such charge in other operating costs and expenses.

Total costs and expenses increased by $1,827,000, or 1.9%, from fiscal 2002 to fiscal 2003. 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 $291,000 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 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 had continued to keep tight control over spending, maintenance of restaurants has been performed when required and maintenance delayed during fiscal 2002 has been completed.

Payroll expenses as a percentage of total revenues was 31.2% in fiscal 2004 compared to 32.3% in fiscal 2003 and 31.6% in fiscal 2002. Payroll expense was $36,045,000, $33,176,000 and $32,084,000 in fiscal 2004, 2003 and 2002, respectively. In fiscal 2003 and 2002, the Company had aggressively adapted its cost structure in response to lower sales expectations following September 11th. Due to the increase in sales during fiscal 2004, the Company had increased its payroll expenses incrementally. The Company continually evaluates its payroll expenses as they relate to sales.

No pre-opening expenses and early operating losses were incurred during fiscal 2004, 2003 or 2002. The Company did not open any new restaurants during fiscal 2003 and 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 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 5.6% in fiscal 2004, 6.5% in fiscal 2003 and 6.4% in fiscal 2002. The decrease in these expenses as a percentage of total revenue during fiscal 2004 is primarily due to increased total revenue during this period. General and administrative expenses were adversely impacted by a $370,000 increase in casualty insurance costs during fiscal 2002.

The Company managed two restaurants it did not own (*The Saloon* and *El Rio Grande*) at October 2, 2004. The Company managed one restaurant it did not own (*El Rio Grande*) at September 27, 2003 and September 28, 2002. Sales of *El Rio Grande*, which are not included in consolidated sales, were $2,786,000 in fiscal 2004, $2,765,000 in fiscal 2003 and $2,973,000 in fiscal 2002. The Company's lease of *The Saloon* is currently being converted into a management agreement, effective as of August 22, 2004, whereby the Company will receive a management fee of $7,000 per month, regardless of the results of operations of this restaurant. The Company entered into agreements, during fiscal 2004, to manage 11 fast food restaurants located in the Hard Rock Casinos in Hollywood and Tampa, Florida. Sales from these operations totaled $6,036,000 during the 2004 fiscal year.

Interest expense was $190,000 in fiscal 2004, $732,000 in fiscal 2003 and $1,201,000 in fiscal 2002. The significant decreases during these periods was due to lower outstanding borrowings on the Company's credit facility and the benefit from rate decreases in the prime-borrowing rate. As of October 2, 2004, the Company had no borrowings on its credit facility. Interest income was $138,000 in fiscal 2004, $162,000 in fiscal 2003 and $133,000 in fiscal 2002.

Other income, which generally consists of purchasing service fees and other income at various restaurants was $595,000, $973,000 and $461,000 for fiscal 2004, 2003 and 2002, respectively. Other income was impacted during fiscal 2003 by the Company's 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. 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. During the years ended September 27, 2003 and October 2, 2004, the Company decreased its allowance for the utilization of the deferred tax asset arising from state and local operating loss carryforwards by $395,000 and $445,000 in such years 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 $591,000 in fiscal 2004, $132,000 in fiscal 2003 and $755,000 in fiscal 2002.

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 consolidated 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 2004 of ($1,336,000) was primarily used for the replacement of fixed assets at existing restaurants. The net cash used in investing activities in fiscal 2003 of ($1,434,000) 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 financing activities in fiscal 2004 ($5,106,000), fiscal 2003 ($8,356,000) and fiscal 2002 ($8,072,000) 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 surplus of $1,263,000 at October 2, 2004 as compared to a working capital deficit of $4,802,000 at September 27, 2003. 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. As of

October 2, 2004, the Company had no borrowings on its credit facility. The loan bears interest at ½% above the bank's prime rate. The Facility also includes a $500,000 Letter of Credit Facility for use in lieu of lease security deposits. The Company has delivered $354,000 in irrevocable letters of credit on this Facility at October 2, 2004. 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.

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. During the year ended October 2, 2004, the Company violated covenants related to a restriction on the payment of dividends 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 years ended September 27, 2003 and October 2, 2004 through December 31, 2004.

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 October 2, 2004 the Company had $251,000 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 October 2, 2004 $496,000 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 expired in May 2004.

A quarterly cash dividend in the amount of $0.35 per share was declared and paid beginning on November 1, 2004, resulting in a payment of $1,187,000 to shareholders of record as of October 22, 2004. Prior to this, the Company has not paid any cash dividends since its inception. The Company intends to continue to pay such quarterly cash dividend for the foreseeable future.

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 (in thousands of dollars)				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
Contractual Obligations:					
Debt	$ 251	$ 251	-	$ -	$ -
Operating Leases	35,534	7,356	12,073	6,198	9,907
Total Contractual Cash Obligations	$ 35,785	$ 7,607	$ 12,073	$ 6,198	$ 9,907

	Amount of Commitment Expiration Per Period (in thousands of dollars)				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
Other Commercial Commitments:					
Letters of Credit	$ 354	$ -	$ 354	$ -	$ -
Total Commercial Commitments	$ 354	$ -	$ 354	$ -	$ -

Restaurant Expansion

The Company recently entered into agreements to operate a *Gallagher's Steakhouse* restaurant and a separate bar, yet to be named, to be constructed in the Resorts Atlantic City Hotel and Casino in Atlantic City, New Jersey.

Recent Restaurant Dispositions and Charges

In fiscal 2003, the Company determined that its restaurant, Lutece, located in New York City, had been impaired by the events of September 11th and the continued weakness in the economy. Based upon the sum of the future undiscounted cash flows related to the Company's long-lived fixed assets at Lutece, the Company determined that impairment had occurred. To estimate the fair value of such long-lived fixed assets, for determining the impairment amount, the Company used the expected present value of the future cash flows. The Company projected continuing negative operating cash flow for the foreseeable future with no value for subletting or assigning the lease for the premises. As a result, the Company determined that there was no value to the long-lived fixed assets. The Company had an investment of $667,000 in leasehold improvements, furniture fixtures and equipment. The Company believed that these assets would have nominal value upon disposal and recorded an impairment charge of $667,000 during fiscal 2003. Due to continued weak sales, the Company closed Lutece during the second quarter of 2004. The Company recorded a net operating losses of $804,000 during the fiscal year ended October 2, 2004 which is included in losses from discontinued operations. The Company also incurred a one-time charge of $470,000 related to pension plan contributions required in connection with the closing of Lutece which is payable monthly over a nine year period beginning May 17, 2004 and bears interest at a rate of 8% per annum.

On December 1, 2003, the Company sold a restaurant, Lorelei, for approximately $850,000. The book value of inventory, fixed assets, intangible assets and goodwill related to this entity was approximately $625,000. The Company recorded a gain on the sale of approximately $225,000 during the first quarter of fiscal 2004 which is included in losses from discontinued operations. Net operating losses of $145,000 were recorded in discontinued operations for fiscal 2004. There were no additional expenses related to this restaurant during the fiscal year ended October 2, 2004.

The Company's restaurant Ernie's, located on the upper west side of Manhattan, opened in 1982. As a result of a steady decline in sales, the Company felt that a new concept was needed at this location. The restaurant was closed June 16, 2003 and reopened in August 2003. Total conversion costs were approximately $350,000. Sales at the new restaurant, La Rambla, failed to reach the level sufficient to achieve the results the Company required. As a result, the Company sold this restaurant on January 1, 2004 and realized a gain on the sale of this restaurant of approximately $214,000. Net operating losses of $230,000 were included in losses from discontinued operations for the fiscal year ended October 2, 2004.

The Company's restaurant Jack Rose located on the west side of Manhattan has experienced weak sales for several years. In addition, this restaurant did not fit the Company's desired profile of being in a landmark destination location. As a result, the Company sold this restaurant on February 23, 2004. The Company realized a loss on the sale of this restaurant of $137,000 which was recorded during the second quarter of fiscal 2004. The Company recorded net operating losses of $148,000 during fiscal 2004 for this restaurant. These losses are included in losses from discontinued operations.

The Company's restaurant America, located in New York City, has experienced declining sales for several years. In March 2004, the Company entered into a new lease for this restaurant at a significantly increased rent. The Company entered into this lease with the belief that due to the location and the uniqueness of the space the lease had value. During fiscal 2004 the Company identified a buyer for this restaurant and is currently completing negotiations for its sale. The carrying amount of the fixed assets held for sale was approximately $128,000 as of October 2, 2004. Net income of $60,000 has been included in losses from discontinued operations for fiscal 2004. The Company expects the sale of this restaurant to be completed during the second quarter of fiscal 2005.

Critical Accounting Policies

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. The Company’s significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements. While all these significant accounting policies impact its financial condition and results of operations, the Company views certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on the Company's consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

The Company believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on the Company's consolidated results of operations, financial position or liquidity for the periods presented in this report.

Below are listed certain policies that management believes are critical:

Use of Estimates

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.

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 fiscal years ended 2003 and 2004.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (R), "Accounting for Stock-Based Compensation." SFAS No. 123 (R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (R) requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123 (R), only certain pro forma disclosures of fair value were required. SFAS No. 123 (R) shall be effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company has not determined if the adoption of this new accounting pronouncement is expected to have a material impact on the financial statements of the Company for fiscal 2006.

Quantitative and Qualitative Disclosures About Market Risk

None.

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 September 28, 2002 through October 1, 2004 are as follows:

Calendar 2002	High	Low
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
Fourth Quarter	14.35	11.15
Calendar 2004		
First Quarter	17.70	13.50
Second Quarter	23.55	17.01
Third Quarter	26.11	21.62

Dividends

A quarterly cash dividend in the amount of $0.35 per share was declared and paid beginning on November 1, 2004. Prior to this, the Company has not paid any cash dividends since its inception. The Company intends to continue to pay such quarterly cash dividend for the foreseeable future.

Number of Shareholders

As of December 16, 2004, there were 54 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Ark Restaurants Corp. and Subsidiaries as of October 2, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ark Restaurants Corp. and Subsidiaries as of October 2, 2004, and their consolidated results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ J.H. Cohn LLP

New York, New York

December 27, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Ark Restaurants Corp. and subsidiaries (the "Company") as of September 27, 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two fiscal years in the period then ended. 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ark Restaurants Corp. and subsidiaries as of September 27, 2003, and the results of their operations and their cash flows for each of the two fiscal years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte and Touche LLP

New York, New York

December 24, 2003
(December 30, 2004 as to the reclassifications described in the final paragraph of Note 2)

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands)

	October 2, 2004	September 27, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,435	$ 486
Accounts receivable	2,171	1,677
Employee receivables	330	255
Current portion of long-term receivables (Note 3)	208	193
Inventories	1,731	1,997
Deferred income taxes (Note 12)	—	281
Prepaid expenses and other current assets	1,615	886
Assets held for sale (Note 2)	128	—
Total current assets	10,618	5,775
LONG-TERM RECEIVABLES (Note 3)	1,082	1,291
FIXED ASSETS—At cost:		
Leasehold improvements	29,720	34,385
Furniture, fixtures and equipment	27,178	29,427
	56,898	63,812
Less accumulated depreciation and amortization	33,437	36,748
	23,461	27,064
INTANGIBLE ASSETS—Net (Note 4)	224	473
GOODWILL	3,515	3,515
DEFERRED INCOME TAXES (Note 12)	5,221	4,622
OTHER ASSETS (Note 5)	773	895
TOTAL	$44,894	$43,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable—trade	$ 2,230	$ 3,443
Accrued expenses and other current liabilities (Note 6)	4,781	5,586
Current maturities of long-term debt (Note 7)	251	350
Accrued income taxes	2,093	1,198
Total current liabilities	9,355	10,577
LONG TERM DEBT—Net of current maturities (Note 7)	—	7,226
OPERATING LEASE DEFERRED CREDIT (Notes 1 and 8)	899	1,006
LIABILITIES HELD FOR DISPOSITION (Note 2)	440	—
TOTAL LIABILITIES	10,694	18,809
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY (Notes 7, 9, 10 and 16):		
Common stock, par value $.01 per share—authorized, 10,000 shares; issued and outstanding 5,462 and 5,249 at October 2, 2004 and September 27, 2003, respectively	54	52
Additional paid-in capital	17,202	14,743
Retained earnings	25,694	19,037
	42,950	33,832
Less stock options receivable	364	655
Less treasury stock of 2,070 and 2,068 shares at October 2, 2004 and September 27, 2003, respectively	8,386	8,351
Total shareholders' equity	34,200	24,826
TOTAL	$44,894	$43,635

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended		
	October 2, 2004	September 27, 2003	September 28, 2002
REVENUES:			
Food and beverage sales	$114,848	$102,054	$101,151
Other income	850	679	474
Total revenues	115,698	102,733	101,625
COST AND EXPENSES:			
Food and beverage cost of sales	29,554	25,392	24,863
Payroll expenses	36,045	33,176	32,084
Occupancy expenses	15,900	15,525	14,890
Other operating costs and expenses	14,492	12,312	12,109
General and administrative expenses	6,499	6,665	6,548
Depreciation and amortization	3,591	3,910	4,659
Total cost and expenses	106,081	96,980	95,153
OPERATING INCOME	9,617	5,753	6,472
OTHER (INCOME) EXPENSE:			
Interest expense (Note 7)	190	732	1,201
Interest income	(138)	(162)	(133)
Other income (Note 13)	(595)	(973)	(461)
	(543)	(403)	607
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	10,160	6,156	5,865
PROVISION FOR INCOME TAXES (Note 12)	2,804	1,486	1,474
INCOME FROM CONTINUING OPERATIONS	7,356	4,670	4,391
DISCONTINUED OPERATIONS:			
LOSS FROM OPERATIONS OF DISCONTINUED RESTAURANTS (INCLUDING NET LOSSES ON DISPOSAL OF $168,000 FOR THE YEAR ENDED OCTOBER 2, 2004) (Note 2)	(965)	(1,781)	(217)
BENEFIT FOR INCOME TAXES (Note 12)	(266)	(430)	(55)
LOSS FROM DISCONTINUED OPERATIONS	(699)	(1,351)	$ (162)
NET INCOME	$ 6,657	$ 3,319	$ 4,229
PER SHARE INFORMATION—BASIC AND DILUTED			
Continuing operations basic	$ 2.22	$ 1.46	$ 1.38
Discontinued operations basic	$ (0.21)	$ (0.42)	$ (0.05)
NET BASIC	$ 2.01	$ 1.04	$ 1.33
Continuing operations diluted	$ 2.13	$ 1.45	$ 1.37
Discontinued operations diluted	$ (0.20)	$ (0.42)	$ (0.05)
NET DILUTED	$ 1.93	$ 1.03	$ 1.32
WEIGHTED AVERAGE NUMBER OF SHARES—Basic	3,305	3,181	3,181
WEIGHTED AVERAGE NUMBER OF SHARES—Diluted	3,444	3,213	3,206

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended		
	October 2, 2004	September 27, 2003	September 28, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 7,356	$ 4,670	$ 4,391
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Deferred income taxes	318	(355)	1,786
Depreciation and amortization	3,591	3,910	4,659
Operating lease deferred credit	53	4	(16)
Changes in operating assets and liabilities			
Receivables	(514)	288	(521)
Employee receivables	(75)	790	(257)
Inventories	133	(65)	181
Prepaid expenses and other current assets	(1,025)	18	49
Prepaid income taxes	—	957	162
Other assets	208	(314)	(380)
Accounts payable—trade	(1,213)	111	(900)
Accrued income taxes	895	1,198	—
Accrued expenses and other current liabilities	(805)	(770)	(388)
Net cash provided by operating activities	8,922	10,442	8,766
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(1,529)	(1,603)	(704)
Issuance of demand notes and long-term receivables	—	—	(125)
Payments received on note receivables	193	169	282
Net cash (used in) provided by investing activities	(1,336)	(1,434)	(547)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	—	1,100	1,500
Principal payment on long-term debt	(7,328)	(9,355)	(9,616)
Exercise of stock options	1,966	—	—
Payment received under stock options receivables	291	61	44
Payment of debt issuance costs	—	(162)	—
Purchase of treasury stock	(35)	—	—
Net cash used in financing activities	(5,106)	(8,356)	(8,072)
NET CASH PROVIDED BY CONTINUING OPERATIONS	2,480	652	147
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	1,469	(985)	672
NET INCREASE (DECREASE) IN CASH—AND CASH EQUIVALENTS	3,949	(333)	819
CASH AND CASH EQUIVALENTS—Beginning of year	486	819	—
CASH AND CASH EQUIVALENTS—End of year	$ 4,435	$ 486	$ 819
SUPPLEMENTAL INFORMATION:			
Cash payments for:			
Interest	$ 264	$ 768	$ 1,271
Income taxes	$ 1,455	$ 114	$ 187

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED OCTOBER 2, 2004, SEPTEMBER 27, 2003 AND SEPTEMBER 28, 2002
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Stock Options Receivable	Total Shareholders' Equity
	Shares	Amount					
BALANCE, September 29, 2001	5,249	$52	$14,743	$11,489	$(8,351)	$(760)	$17,173
Purchase of treasury stock	—	—	—	—	—	44	44
Net income	—	—	—	4,229	—	—	4,229
BALANCE—September 28, 2002	5,249	52	14,743	15,718	(8,351)	(716)	21,446
Net payment on stock options receivables	—	—	—	—	—	61	61
Net income	—	—	—	3,319	—	—	3,319
BALANCE—September 27, 2003	5,249	52	14,743	19,037	(8,351)	(655)	24,826
Exercise of stock options	213	2	1,964	—	—	—	1,966
Tax benefit on exercise of options	—	—	495	—	—	—	495
Purchase of treasury stock	—	—	—	—	(35)	—	(35)
Payment on stock options receivables	—	—	—	—	—	291	291
Net income	—	—	—	6,657	—	—	6,657
BALANCE—October 2, 2004	5,462	$54	$17,202	$25,694	$(8,386)	$(364)	$34,200

See notes to consolidated financial statements.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ark Restaurants Corp. and subsidiaries (the "Company") own and operate 22 restaurants, 26 fast food concepts, catering operations and wholesale and retail bakeries. Nine restaurants are located in New York City, nine in Las Vegas, Nevada and four in Washington, D.C. The 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 nine food court concepts. Four restaurants and bars are within the Venetian Casino Resort as well as four food court concepts; one restaurant is within the Forum Shops at Caesar's Shopping Center and one restaurant is in downtown Las Vegas at the Neonopolis Center. The Company also manages five fast food facilities in Tampa, Florida and eight fast food facilities in Hollywood, Florida, each at a Hard Rock Hotel and Casino owned by the Seminole Indian Tribe at these locations.

Accounting Period—The Company's fiscal year ends on the Saturday nearest September 30. The fiscal year ended October 2, 2004 included 53 weeks. The fiscal years ended September 27, 2003, and September 28, 2002, 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 long-term receivables, 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 statements.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Accounts Receivable—Accounts receivable is primarily composed of normal business receivables such as credit card receivables that are paid off in a short period of time. See Notes 16 and 17 for a discussion of related party receivables.

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 (three to seven 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 includes in leasehold improvements in progress restaurants that are under construction. Once the projects have been completed the Company will begin amortizing the assets. Start-up costs incurred during the construction period of restaurants, including rental of premises, training and payroll, are expensed as incurred.

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. In the evaluation of the fair value and future benefits of long-lived assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value. Various factors including future sales growth and profit margins are included in this analysis. Management believes at this time that carrying values and useful lives continue to be appropriate.

For the years ended October 2, 2004 and September 28, 2002, no impairment charges were deemed necessary. For the year ended September 27, 2003, an impairment charge of $667,000 was incurred on the restaurant Lutece (Note 2).

Intangible Assets and Goodwill—As of September 29, 2002, the Company adopted the provisions for SFAS No. 142, Accounting for Goodwill and Other Intangible Assets, This statement requires that goodwill and intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least annually and written down with a charge to operations when the carrying amount exceeds the estimated fair value. Prior to the adoption of SFAS No. 142, the Company amortized goodwill. The amount of such amortized goodwill was $3,515,000 as of September 28, 2002. In accordance with SFAS No. 142 the Company discontinued the amortization of goodwill effective September 29, 2002. Had the provisions of SFAS No. 142 been in effect during the year ended September 28, 2002 a reduction of amortization expense in pretax income of $364,000 or an increase of $0.11 in basic and diluted earnings per share would have been recorded. The Company has completed its annual impairment analysis as of October 2, 2004 and has determined that there is no impairment of goodwill.

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.

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

Amortization expense for intangible assets not including goodwill was $27,000, $15,000 and $39,000 for the years ended October 2, 2004, September 27, 2003, and September 28, 2002, respectively.

Other Assets—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 two years, the remaining term of the facility.

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 Taxes—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Income Per Share of Common Stock—Basic 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. Dilutive net income per share reflects the additional dilutive effect of potentially dilutive shares (principally those arising from the assumed exercise of 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 Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") had been adopted. The Company generally does not grant options to outsiders.

SFAS No. 123 requires the Company to disclose pro forma net income and pro forma earnings per share information for employee stock option grants to employees as if the fair-value method defined in SFAS No. 123 had been applied. The Company utilized the Black-Scholes option-pricing model to quantify the pro forma effects on net income and earnings per share of all options granted. There were no options granted during fiscal 2004 and 2003 and no charges to operations for options issued to employees during fiscal 2004, 2003 and 2002.

In accordance with Statement of Financial Accounting Standards No. 148 ("SFAS No. 148") and SFAS 123, the Company's pro forma option expense is computed using Black-Scholes option pricing model. To comply with SFAS 148, the Company is presenting the following table to illustrate the effect on the net income and income per share if it had applied the fair value recognition provisions of SFAS 123, as amended, to options granted under the stock-based employee compensation plan. For purposes of this pro forma disclosure, the estimated value of the options is amortized ratably to expense over the options' vesting periods.

The pro forma impact was as follows:

	Years Ended		
	October 2, 2004	**September 27, 2003**	**September 28, 2002**
	(In thousands, except per share amounts)		
Net income as reported	$6,657	$3,319	$4,229
Deduct stock based compensation expense computed under the fair value method	85	118	141
Net income—pro forma	$6,572	$3,201	$4,088
Net income per share as reported—basic	$ 2.01	$ 1.04	$ 1.33
Net income per share as reported—diluted	$ 1.93	$ 1.03	$ 1.32
Net income per share pro forma—basic	$ 1.99	$ 1.01	$ 1.29
Net income per share pro forma—diluted	$ 1.91	$ 1.00	$ 1.27

The weighted-average assumptions which were used for options granted in fiscal 2002 included a risk free interest rate of 4.25% and volatility of 35%. An expected life of four years was used. No annual dividend yield was assumed. The weighted average grant date fair value of options granted and outstanding during fiscal 2002 was $2.05.

Reclassifications—Certain reclassifications of prior year balances have been made to conform with current year presentation.

2. RECENT RESTAURANT DISPOSITIONS

In fiscal 2003, the Company determined that its restaurant, Lutece, located in New York City, had been impaired by the events of September 11th and the continued weakness in the economy. Based upon the sum of the future undiscounted cash flows related to the Company's long-lived fixed assets at Lutece, the Company determined that impairment had occurred. To estimate the fair value of such long-lived fixed assets, for determining the impairment amount, the Company used the expected present value of the future cash flows. The Company projected continuing negative operating cash flow for the foreseeable future with no value for subletting or assigning the lease for the premises. As a result, the Company determined that there was no value to the long-lived fixed assets. The Company had an investment of $667,000 in leasehold improvements, furniture fixtures and equipment. The Company believed that these assets would have nominal value upon disposal and recorded an impairment charge of $667,000 during fiscal 2003. Due to continued weak sales, the Company closed Lutece during the second quarter of 2004. The Company recorded net operating losses of $804,000 for Lutece during the fiscal year ended October 2, 2004 which are included in losses from discontinued operations. In 2004 the Company also incurred a one-time charge of $470,000 related to pension plan contributions required in connection with the closing of Lutece which is payable monthly over a nine year period beginning May 17, 2004 and bears interest at a rate of 8% per annum.

On December 1, 2003, the Company sold a restaurant, Lorelei, for approximately $850,000. The book value of inventory, fixed assets, intangible assets and goodwill related to this entity was approximately $625,000. The Company recorded a gain on the sale of approximately $225,000 during the first quarter of fiscal 2004 which is included in losses from discontinued operations. Net operating losses of $145,000 were recorded in discontinued operations in fiscal 2004. There were no additional expenses related to this restaurant during the fiscal year ended October 2, 2004.

The Company's restaurant Ernie's, located on the upper west side of Manhattan opened in 1982. As a result of a steady decline in sales, the Company felt that a new concept was needed at this location. The restaurant was closed June 16, 2003 and reopened in August 2003. Total conversion costs were approximately $350,000. Sales at the new restaurant, La Rambla, failed to reach the level sufficient to achieve the results the Company required. As a result, the Company sold this restaurant on January 1, 2004 and realized a gain on the sale of this restaurant of approximately $214,000. Net operating losses of $230,000 were included in losses from discontinued operations for the fiscal year ended October 2, 2004.

The Company's restaurant Jack Rose located on the west side of Manhattan has experienced weak sales for several years. In addition, this restaurant did not fit the Company's desired profile of being in a landmark destination location. As a result, the Company sold this restaurant on February 23, 2004. The Company realized a loss on the sale of this restaurant of $137,000 which was recorded during the second quarter of fiscal 2004. The Company recorded net operating losses of $148,000 during fiscal 2004 for this restaurant. These losses are included in losses from discontinued operations.

The Company's restaurant America, located in New York City, has experienced declining sales for several years. In March 2004, the Company entered into a new lease for this restaurant at a significantly increased rent. The Company entered into this lease with the belief that due to the location and the uniqueness of the space the lease had value. During fiscal 2004 the Company identified a buyer for this restaurant and is currently completing negotiations for its sale. The carrying amount of the net assets held for sale was approximately $128,000 as of October 2, 2004. Net income of $60,000 has been included in losses from discontinued operations for fiscal 2004. The Company expects the sale of this restaurant to be completed during the second quarter of fiscal 2005.

In accordance with SFAS No. 144, all prior years included in the accompanying consolidated statements of operations and cash flows have been reclassified to separately show the results of operations and cash flows of these discontinued operations. Total revenues of these discontinued operations were $6,501,000, $13,860,000 and $14,968,000 in fiscal 2004, 2003 and 2002, respectively.

3. LONG-TERM RECEIVABLES

Long-term receivables consist of the following:

	October 2, 2004	September 27, 2003
	(In thousands)	
Note receivable collateralized by fixed assets and lease at a restaurant sold by the Company, at 8% interest; due in monthly installments through December 2006 (a)	$ 192	$ 268
Note receivable colleteralized by fixed assets and lease at a restaurant sold by the Company, at 7.5% interest; due in monthly installments through December 2008 (b)	1,009	1,104
Note receivable collateralized by fixed assets and lease at a restaurant at 7.0% interest; due in monthly installments through December 2007 (c)	89	112
	1,290	1,484
Less current portion	208	193
	$1,082	$1,291

(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 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, was paid in 24 monthly installments of $19,000 through April 2000. The second note, with an initial principal balance of $1,150,000, will be paid in 104 monthly installments of $15,000 commencing May 2000 and ending December 2008. At December 2008, the then outstanding balance of $519,000 matures.

The Company recognized a gain of approximately $585,000 in the fiscal year ended September 27, 2003 in connection with the sale of this restaurant. The gain recognized reflected the realization of a gain that had been deferred originally due to the length of the note and the substantial balance due upon maturity ($519,000). A review of the performance of this note and the security underlying it has lead management to conclude that the full amount will likely be collected and, accordingly, the note no longer requires a reserve. Consequently, the Company eliminated this reserve and included the amount in revenue, in other income, for the year ended September 27, 2003. As a result of the reclassification of discontinued operations this gain is included in losses from discontinued operations for fiscal 2003.

(c) In June 2000, the Company sold this restaurant for $438,000. Cash of $188,000 was received on sale and the balance was due in installments through June 2006. In February 2001, the buyer defaulted and the Company took possession of this restaurant and sold it to another party in June 2002. The total price was $270,000, cash of $145,000 was received on sale and the balance is due in installments through December 2007.

The Company recognized a gain during the year ended September 28, 2002 of $105,000, the net of funds received from the buyer and the outstanding $165,000 note which was written down on the default.

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

4. INTANGIBLE ASSETS

Intangible assets consist of the following:

	October 2, 2004	September 27, 2003
	(In thousands)	
Purchased leasehold rights (a)	$ 611	$ 751
Noncompete agreements and other	600	926
	1,211	1,677
Less accumulated amortization	987	1,204
Total intangible assets	$ 224	$ 473

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

5. OTHER ASSETS

Other assets consist of the following:

	October 2, 2004	September 27, 2003
	(In thousands)	
Deposits and other	$350	$378
Deferred financing fees	27	117
Landlord receivable (a)	396	400
	$773	$895

(a) This balance represents certain costs paid by the Company on behalf of a landlord, that under an agreement with the landlord will be used as a future offset to contingent rent payments for certain Las Vegas restaurants.

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	October 2, 2004	September 27, 2003
	(In thousands)	
Sales tax payable	$ 833	$ 737
Accrued wages and payroll related costs	1,430	1,390
Customer advance deposits	853	815
Accrued and other liabilities	1,169	1,770
Abandonment accrual (a)	496	874
	$4,781	$5,586

(a) During the year ended September 29, 2001, the Company recorded the entire amount payable under an operating lease for restaurant equipment for the Aladdin operations as a liability of $1,600,000 based on their anticipated abandonment. During the year ended September 28, 2002, the operations at the Aladdin were abandoned (see Note 2).

7. NOTES PAYABLE AND CREDIT FACILITY

The Company's debt consists of the following:

	October 2, 2004	September 27, 2003
	(In thousands)	
Notes issued in connection with refinancing of restaurant equipment, with interest at 8.80%, payable in monthly installments through May 2005 (a)	$251	$ 601
Revolving Credit and Term Loan Facility with interest at the prime rate, plus ½%, due February 16, 2005 (b)	—	6,975
	251	7,576
Less current maturities	251	350
	$ —	$7,226

(a) In April 2000, the Company borrowed from its main bank $1,570,000 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 8.80% per annum and are payable in 60 equal monthly installments of $32,439 inclusive of interest, until maturity in May 2005.

(b) As of October 2, 2004, the Company's Revolving Credit and Term Loan Facility (the "Facility") with its main bank (Bank Leumi USA), included a $8,500,000 credit line to finance the development and construction of new restaurants and for working capital purposes at the Company's existing restaurants. The credit line has a maturity date of February 12, 2005. The Company had no borrowings outstanding on the Facility at October 2, 2004. Borrowings on the Facility bear interest at ½% above the bank's prime rate. The Facility also includes a $500,000 letter of credit facility for use in lieu of lease security deposits. The Company had delivered $354,000 in irrevocable letters of credit on this Facility. 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 foregoing 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. In December 2001 and April 2002, certain covenants in the Facility were modified for fiscal 2002 and beyond. The Company violated a covenant related to a limitation on cash flow during the quarter ended October 2, 2004. The Company received a waiver through December 31, 2004 from Bank Leumi USA for the covenant with which it was not in compliance. The Company has historically received waivers for any covenant violation.

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 in Las Vegas, Nevada for the restaurant Saloon. The Company provided a lease guaranty ("Guaranty") to induce the landlord to enter into the lease agreement. The Guaranty was 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 expired in May 2004.

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 2025. 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 2, 2004, future minimum lease payments, net of sublease rentals, under noncancelable leases are as follows:

Fiscal Year	Amount (In thousands)
2005	$ 7,356
2006	7,451
2007	4,622
2008	3,342
2009	2,856
Thereafter	9,907
Total minimum payments	$35,534

In connection with the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of $354,000 as security deposits under such leases.

Rent expense was $12,104,000, $11,027,000 and $10,737,000 during the fiscal years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively. Contingent rentals, included in rent expense, were $4,153,000, $3,366,000 and $3,198,000 for the fiscal years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

In August 2004, the Company entered into a lease agreement to operate a Gallagher's Steakhouse and separate bar, yet to be named, at the Resorts International Hotel and Casino in Atlantic City, New Jersey. The landlord has agreed to contribute up to $3,000,000 towards the construction of these facilities which the Company believes will be sufficient to complete construction. The restaurant and bar are scheduled to open in July 2005. The future minimum lease payments from these lease agreements are included in the above schedule.

Legal Proceedings—In the ordinary course of its business, the Company is a party to various lawsuits arising from accidents at its restaurants and worker'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's consolidated financial statements or operations.

Several unfair labor practice charges were filed against the Company in 1997 with the National Labor Relations Board (NLRB) with respect to the Company's Las Vegas subsidiary. The charges were heard in October 1997. At issue was whether the Company unlawfully terminated nine employees and disciplined six other employees allegedly in retaliation for their union activities. An Administrative Law Judge (ALJ) found that six employees were terminated unlawfully, three were discharged for valid reasons, four employees were disciplined lawfully and two employees were disciplined unlawfully. On appeal, the NLRB found that the Company lawfully disciplined five employees, and unlawfully disciplined one employee. The Company appealed the adverse rulings of the NLRB to the D.C. Circuit Court of Appeals. In July 2003, the D.C. Circuit Court of Appeals affirmed the determinations of the NLRB. The Company offered to reinstate the employees during fiscal 2004 and they refused. The Company incurred no liability as a result.

9. COMMON STOCK REPURCHASE PLAN

In August 1998, the Company authorized the repurchase of up to 500,000 shares of the Company's outstanding common stock. In April 1999, the Company authorized the repurchase of an additional 300,000 shares of the Company's outstanding common stock. For the year ended October 2, 2004 the

Company repurchased 2,500 shares at a total cost of $35,000. For the years ended September 27, 2003 and September 28, 2002, there were no repurchases of common stock.

10. STOCK OPTIONS

The Company has a Stock Option Plan (the "Plan") pursuant to which the Company reserved for issuance an aggregate of 1,098,000 shares of common stock. Options granted under the Plan to key employees 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:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	392,500	$ 7.91	392,500	$7.91	330,000	$10.72
Options:						
Granted	—		—		240,000	6.30
Exercised	(212,500)	9.18	—		—	
Canceled or expired	(2,000)	10.00	—		(177,500)	10.24
Outstanding, end of year (a)	178,000	6.30	392,500	7.91	392,500	7.91
Exercise price, outstanding options	$6.30–7.50		$6.30–10.00		$6.30–10.00	
Weighted average years	2.14 Years		2.06 Years		3.06 Years	
Shares available for future grant	371,000		371,000		371,000	
Options exercisable (a)	60,500	6.30	220,000	9.10	168,000	10.00

(a) Options become exercisable at various times until expiration dates ranging from December 2003 through December 2006.

11. MANAGEMENT FEE INCOME

As of October 2, 2004, the Company provides management services to two fast food courts and one restaurant it does not own. In accordance with the contractual arrangements, the Company earns management fees based on operating profits as defined by the agreement.

Management fee income relating to these services was $386,000, $120,000 and $30,000 for the years ended October 2, 2004, September 27, 2003 and September 28, 2002, respectively.

Restaurants managed had sales of $9,566,000, $2,765,000 and $2,973,000 during the management periods within the years ended October 2, 2004, September 27, 2003 and September 28, 2002, 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 (benefit) for income taxes attributable to continuing and discontinued operations consists of the following:

	Years Ended		
	October 2, 2004	September 27, 2003	September 28, 2002
	(In thousands)		
Current provision (benefit):			
Federal	$2,168	$1,534	$(2,151)
State and local	514	316	872
	2,682	1,850	(1,279)
Deferred provision (benefit):			
Federal	259	3	2,784
State and local	(403)	(797)	(86)
	(144)	(794)	2,698
	$2,538	$1,056	$ 1,419

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

	Years Ended		
	October 2, 2004	September 27, 2003	September 28, 2002
	(In thousands)		
Provision for Federal income taxes (34%)	$3,126	$1,488	$1,920
State and local income taxes net of Federal tax benefit	334	208	575
Amortization of goodwill	—	—	26
Tax credits	(591)	(132)	(755)
State and local net operating loss carryforward allowance adjustment	(414)	(445)	—
Other	83	(63)	(347)
	$2,538	$1,056	$1,419

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

	October 2, 2004	September 27, 2003
	(In thousands)	
Deferred tax assets (liabilities):		
Operating loss carryforwards	$ 2,128	$ 2,206
Operating lease deferred credits	377	458
Carryforward tax credits	5,024	5,472
Depreciation and amortization	(1,598)	(2,140)
Deferred gains	(107)	(151)
Valuation allowance	(486)	(900)
Inventory	(270)	(270)
Pension withdrawal liability	153	—
Asset impairment	—	228
	$ 5,221	$ 4,903

A valuation allowance for deferred taxes is required if, based on the evidence, it is more likely than not that some of the deferred tax assets will not be realized. The Company believes that uncertainty exists with respect to future realization of certain operating loss carryforwards and operating lease deferred credits. Therefore, the Company provided a valuation allowance of $486,000 at October 2, 2004, $900,000 at September 27, 2003 and $1,031,000 at September 28, 2002. The Company decreased its allowance for the utilization of the deferred tax asset arising from state and local operating loss carryforwards by $395,000 and $445,000 for the years ended October 2, 2004 and September 27, 2003, respectively, based on the merger of certain unprofitable subsidiaries into profitable ones. The Company has state operating loss carryforwards of $27,371,000, which expire in the years 2004 through 2018.

During the fiscal year ended September 27, 2003, the Company and the Internal Revenue Service finalized the adjustments to the Company's Federal income tax returns for the fiscal years ended September 30, 1995 through October 3, 1998. The final adjustments primarily relate to: (i) 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 or the Internal Revenue Code. These settlements did not have a material effect on the Company's financial condition.

13. OTHER INCOME

Other income consists of the following:

	Years Ended		
	October 2, 2004	September 27, 2003	September 28, 2002
		(In thousands)	
Purchasing service fees	$ 61	$ 58	$123
World Trade Center Recovery Grants (a)	—	508	—
Other	534	407	338
	$595	$973	$461

(a) During the fiscal year ended September 27, 2003, the Company applied for grants to the World Trade Center Business Recovery Grant Program for four restaurants located in downtown New York. The program was established to compensate businesses for economic losses resulting from the September 11, 2001 disaster. As a result of our applications, the Company received compensation of $508,000 during the fourth quarter of the year ended September 27, 2003.

14. INCOME PER SHARE OF COMMON STOCK

A reconciliation of the numerators and denominators of the basic and diluted per share computations for the fiscal years ended October 2, 2004, September 27, 2003 and September 28, 2002 follows.

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	(In thousands, except per share amounts)		
Year ended October 2, 2004:			
Basic EPS	$6,657	3,305	$ 2.01
Stock options	—	139	(0.08)
Diluted EPS	$6,657	3,444	$ 1.93
Year ended September 27, 2003:			
Basic EPS	$3,319	3,181	$ 1.04
Stock options	—	32	(0.01)
Diluted EPS	$3,319	3,213	$ 1.03
Year ended September 28, 2002:			
Basic EPS	$4,229	3,181	$ 1.33
Stock options	—	25	(0.01)
Diluted EPS	$4,229	3,206	$ 1.32

For the years ended September 27, 2003 and September 28, 2002, stock options for shares of 168,000 and 178,000, respectively, were not included in the computation of diluted EPS because to do so would have been antidilutive.

15. QUARTERLY INFORMATION (UNAUDITED)

The following table sets forth certain quarterly operating data.

	Fiscal Quarters Ended			
	December 27, 2003	March 27, 2004	June 26, 2004	October 2, 2004
	(In thousands except per share amounts)			
2004				
Food and beverage sales	$24,592	$24,739	$32,504	$33,013
Net income from continuing operations	418	494	3,094	3,350
Net income (loss) from discontinued operations	138	(608)	(34)	(195)
Net income (loss)	556	(114)	3,060	3,155
Per share information—basic and diluted:				
Continuing operations basic	$ 0.13	$ 0.15	$ 0.89	$ 0.99
Discontinued operations basic	0.05	(0.19)	(0.01)	(0.06)
Net basic	$ 0.18	$ (0.04)	$ 0.88	$ 0.93
Continuing operations diluted	$ 0.13	$ 0.15	$ 0.85	$ 0.95
Discontinued operations diluted	0.04	(0.19)	(0.01)	(0.06)
Net diluted	$ 0.17	$ (0.04)	$ 0.84	$ 0.89

	Fiscal Quarters Ended			
	December 28, 2002	March 29, 2003	June 28, 2003	September 27, 2003
	(In thousands except per share amounts)			
2003				
Food and beverage sales	$22,497	$22,338	$28,120	$29,099
Net income (loss) from continuing operations	(91)	273	1,781	2,707
Net (loss) from discontinued operations	(25)	(243)	(162)	(921)
Net income (loss)	(116)	30	1,619	1,786
Per share information—basic and diluted:				
Continuing operations basic	$ (0.03)	$ 0.05	$ 0.56	$ 0.85
Discontinued operations basic	(0.01)	(0.04)	(0.05)	(0.29)
Net basic	$ (0.04)	$ 0.01	$ 0.51	$ 0.56
Continuing operations diluted	$ (0.03)	$ 0.05	$ 0.55	$ 0.84
Discontinued operations diluted	(0.01)	(0.04)	(0.05)	(0.29)
Net diluted	$ (0.04)	$ 0.01	$ 0.50	$ 0.55

16. STOCK OPTION RECEIVABLES

Stock option receivables include amounts due from officers and directors totaling $364,000 and $655,000 at October 2, 2004 and September 27, 2003, respectively. Such amounts which are due from the exercise of stock options in accordance with the Company's Stock Option Plan are payable on demand with interest (4.25% at October 2, 2004 and 4% at September 27, 2003).

17. RELATED PARTY TRANSACTIONS

Receivables due from officers and directors, excluding stock option receivables, totaled $52,000 at October 2, 2004 compared to $85,000 at September 27, 2003. Other employee loans totaled $278,000 at October 2, 2004 compared to $166,000 at September 27, 2003. Such loans bear interest at the minimum statutory rate (2.24% at October 2, 2004 and 1.52% at September 27, 2003).

18. SUBSEQUENT EVENTS

On October 12, 2004 the Company announced that the Board of Directors instituted a dividend policy by declaring a regular quarterly dividend of $.35 a share on the Company's outstanding common stock beginning November 1, 2004 to shareholders of record at the close of business October 22, 2004. On November 1, 2004 the Company paid dividends of $1,187,000.

* * * * * *

Item 6. Selected Consolidated Financial Data

The following table sets forth certain financial data for the fiscal years ended 2000 through 2004. During fiscal year 2004, the Company sold three of its restaurants, closed one restaurant and considered one restaurant held for sale in accordance with FAS 144. The operations of these restaurants have been presented as discontinued operations for the 2004 fiscal year, and the Company has reclassified its statements of operations data for the prior periods presented below, in accordance with FAS 144. 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				
	October 2, 2004	September 27, 2003	September 28, 2002	September 29, 2001	September 30, 2000
	(In thousands, except per share data)				
		(a)		(b)	(c)
OPERATING DATA:					
Total revenue	$ 115,698	$102,733	$101,625	$ 106,844	$ 103,385
Cost and expenses	(106,081)	(96,980)	(95,153)	(101,198)	(100,669)
Operating income	9,617	5,753	6,472	5,646	2,716
Other income (expense), net	543	403	(607)	(2,223)	(1,621)
Income from continuing operations before provision for income taxes and cumulative effect of accounting change	10,160	6,156	5,865	3,423	1,095
Provision for income taxes	2,804	1,486	1,474	1,123	384
Income from continuing operations before the cumulative effect of accounting change	7,356	4,670	4,391	2,300	711
Loss from discontinued operations before benefit for income taxes and the cumulative effect of accounting change	(965)	(1,781)	(217)	(13,614)	(6,535)
Benefit for income taxes	(266)	(430)	(55)	(4,466)	(2,290)
Income from discontinued operations before the cumulative effect of accounting change	(699)	(1,351)	(162)	(9,148)	(4,245)
Cumulative effect of accounting change—net	—	—	—	—	(189)
NET INCOME (LOSS)	6,657	3,319	4,229	(6,848)	(3,723)
NET INCOME (LOSS) PER SHARE:					
Continuing operations basic	$ 2.22	$ 1.46	$ 1.38	$ 0.72	$ 0.16
Discontinued operations basic	$ (0.21)	$ (0.42)	$ (0.05)	$ (2.88)	$ (1.33)
Net basic	$ 2.01	$ 1.04	$ 1.33	$ (2.16)	$ (1.17)
Continuing operations diluted	$ 2.13	$ 1.45	$ 1.37	$ 0.72	$ 0.16
Discontinued operations diluted	$ (0.20)	$ (0.42)	$ (0.05)	$ (2.88)	$ (1.33)
Net diluted	$ 1.93	$ 1.03	$ 1.32	$ (2.16)	$ (1.17)
Weighted average number of shares					
Basic	3,305	3,181	3,181	3,181	3,461
Diluted	3,444	3,213	3,206	3,186	3,476
BALANCE SHEET DATA (end of period):					
Total assets	$ 44,894	$ 43,635	$ 47,960	$ 53,091	$ 66,297
Working capital (deficit)	1,263	(4,802)	(7,990)	(6,569)	(5,460)
Long-term debt	—	7,226	9,547	21,700	24,447
Shareholders' equity	34,200	24,826	21,446	17,173	24,065
Shareholders' equity per share	10.08	7.80	6.74	5.40	7.55
Facilities in operations—end of year, including managed	48	41	41	47	49

(footnotes continued on next page)

(footnotes continued from previous page)

(a) Fiscal 2003 income was adversely affected by an asset impairment charge of $667,000 related to the fixed assets of a restaurant, Lutece, located in New York.

(b) Fiscal 2001 income was adversely affected by an asset impairment charge of $10,045,000 related to the Aladdin operations and a charge of $935,000 due to the cancellation of a development project.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Michael Weinstein
Chairman, President and Chief Executive Officer

Robert Towers
Executive Vice President, Chief Operating Officer and Treasurer

Vincent Pascal
Senior Vice President --- Operations and Secretary

Paul Gordon
Senior Vice President --- Director of Las Vegas Operations

Marcia Allen
President, Allen & Associates

Bruce Lewin
Member, Continental Hosts, Ltd.

Steve Shulman
President, Managing Director, Hampton Group Inc.

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