Ark Restaurants Corp.

2005 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 23 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, eight of the restaurants are located in New York City, four are located in Washington, D.C., nine are located in Las Vegas, Nevada, and two are located in Atlantic City, New Jersey. 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 1, 2005, including financial statements and schedules thereto, to each of the Company's shareholders of record on February 6, 2006 and each beneficial holder on that date, upon receipt of a written request therefore mailed to the Company's offices, 85 Fifth Avenue, New York, NY 10003 Attention: Treasurer.

February 9, 2006

Dear Shareholder:

We continue our conservative discipline for your Company while focusing on the maximization of cash flow. Your Company has no debt, a strong working capital position, a healthy balance sheet and annually pays a $1.40 dividend for each common share.

We seek only landmark properties with strong tenant lease positions for our restaurant locations. This requires patience, but over the long term we are convinced that building shareholder value is best accomplished by this strategy. We are mindful that our cash is a precious commodity, and there is always a risk element in any business arrangement. Therefore, our plan remains that much of the capital for new opportunities will come primarily from real estate developers or investor/partners willing to accept some or all of risk while we are paid for our management talent with fees that include incentives.

In the 2005 fiscal year our cash position and balance sheet improved. However, EBITDA from continuing operations for fiscal 2005 was $12,617,000, which was below the $13,803,000 EBITDA of fiscal year 2004. One reason for lower EBITDA is the 52/53 week format used by the Company for reporting purposes in which certain years contain 52 weeks and others 53 weeks. The fiscal year ended October1, 2005 was a 52 week year and we were comparing to a 53 week prior fiscal year. Beyond this, there were several other contributing factors to our lower EBITDA.

Most notably, sales declined dramatically at The Venetian Hotel in Las Vegas after several years of good growth. We are working with Venetian management to strengthen our operations and we hope to benefit from the reconfiguration or relocation of several of our concepts at the hotel. This will not require a substantial capital investment from your Company. The hotel is expanding their retail component and increasing the number of guest rooms from 4,000 to 7,000. If discussions with Venetian management are successful, positive results will not be immediate as part of the solution is tied to their construction program which is to be completed by late spring 2007. However, in the time frame of the current year, we are confident that operating results at the Venetian will show some improvement. Meanwhile, sales at New York New York Hotel and Casino and at The Stage Deli in The Forum Shops improved, but this positive was not able to offset the larger decline at The Venetian and comparative sales for all Las Vegas operations declined this past fiscal year by 2% (adjusted for the extra week in the 2004 fiscal year).

Another influence on EBITDA is in revenue that we missed. We had planned to open two new projects, Luna Lounge and Gallagher's Steak House, in Atlantic City's Resorts International Hotel and Casino in mid-summer 2005. These were delayed by labor disputes at the hotel and we were not in business until December 2005, our first quarter of the 2006 fiscal year. Similarly, an expansion of our tequila bar at Gonzalez y Gonzalez and a new interior and expansion of seating capacity at America in the New York New York Hotel and Casino in Las Vegas, due for early summer completion, were delayed by a management change at the hotel and were not completed until January 2006.

Our cost structure was impacted by higher minimum wages in New York City and Washington D.C.; higher energy costs increased utility, commodity and delivery expenses; and substantial compliance costs were incurred in implementing new accounting and securities law regulations.

Our ability to keep payroll and cost of goods as a percentage of sales in line with the previous fiscal year is a testament to the focus of management at the operating level.

Sales in New York City and Washington, D.C. increased on a comparative store basis by 5.7% and 5.3% respectively (adjusted for the extra week in the 2004 fiscal year). At our two Florida operations there was double digit sales growth. The Florida properties continue to exceed our upside projections.

In fiscal 2006, we should continue to be advantaged by the trending up of sales in New York City, Washington D.C. and Florida. We are also positioned to benefit from our expansion of capacity at Gonzalez y Gonzalez and America at the New York New York Hotel and Casino and the addition of our two Atlantic City operations. If fundamentals at the Venetian Hotel start to improve, then we are in for a good year.

We made two significant additions to our Board of Directors in the past year:

Stephen Novick serves as Senior Advisor for the Andrea and Charles Bronfman Philanthropies, a private family foundation. From 1990 to 2004, Mr. Novick served as Chief Creative Officer of Grey Global Group, an advertising agency. Mr. Novick continues to serve as a consultant for Grey Global Group. He also serves as a member of the Board of Directors of Toll Brothers, Inc.

Robert Thomas Zankel has been a portfolio manager at Iridian Asset Management LLC, an institutional money management company with over $10 billion under management, since January 2004. From March 1995 to December 2003, Mr. Zankel was an analyst for Iridian Asset Management LLC.

I wish to thank every one working with us for their commitment to your Company.

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
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
Luis Gomes, Director of Purchasing – Las Vegas Operation
Jennifer Sutton, Director of Operations and Financial Analysis
Joe Vazquez, Director of Facilities Management
Evyette Ortiz, Director of Marketing
Michael Buck, General Counsel and Secretary

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
Patty Kuaranta, The Saloon
Charles Gerbino, Las Vegas Employee Dining Facility
Larry Downey, Gallagher's
Paul Savoy, Village Streets

John Hausdorf, Las Vegas Room Service
Chris Taggert, Tsunami Grill
Mary Massa, Gonzalez y Gonzalez
Marcel Serapio, America
Patty Geist, Stage Deli
Vince Adams, Lutece
Maria Payumo, Venetian Food Court
Drew Dixon, V-Bar and Vivid

Restaurant Manager-Atlantic City
Donna McCarthy, Gallagher's and Luna Lounge

Restaurant Managers-Florida
Mamunur Rosid, Hollywood Food Court
Darvin Prats, Tampa Food Court

Restaurant Chefs-New York
Armando Cortes, The Grill Room
Rosalio Fuentes, Metropolitan Café
Santiago Pascual, Sequoia
Santiago Moran, Red
Virgilio Ortega, Columbus Bakery
Fermin 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
Pang Sing Tang, Thunder Grill

Restaurant Chefs-Las Vegas
David Abraczinskas, Stage Deli
Hector Hernandez, America
Florence Duff, Tsunami Grill
Pedro Gonzalez, Vico's Burritos
Luigi Guiga, Gallagher's
Joshua Schlink, Banquet
John Miller, The Saloon
Andreas Baecker, Lutece
Ernesto Suenaga, Las Vegas Employee Dining Facility
Sergio Salazar, Gonzalez y Gonzalez

Restaurant Chef-Atlantic City
Jim Waninger, Gallagher's

Restaurant Chefs-Florida
Asher Feldman, Hollywood Food Court
Artemio Espinoza, Tampa Food Court

Selected Consolidated Financial Data

The table on the following page sets forth certain financial data for the fiscal years ended in 2001 through 2005. During fiscal year 2005, the Company sold one of its restaurants which was considered 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"), during part of fiscal year 2004 and part of fiscal year 2005. During fiscal year 2004, the Company sold three of its restaurants and closed one restaurant. The operations of these restaurants have been presented as discontinued operations for the 2004 and 2005 fiscal years, 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 1, 2005	October 2, 2004	September 27, 2003	September 28, 2002	September 29, 2001
	(In thousands, except per share data)				
			(a)		(b)
OPERATING DATA:					
Total revenues	$ 115,577	$ 115,698	$ 102,733	$ 101,625	$ 106,844
Cost and expenses	(107,325)	(106,081)	(96,980)	(95,153)	(101,198)
Operating income	8,252	9,617	5,753	6,472	5,646
Other income (expense), net	747	543	403	(607)	(2,223)
Income from continuing operations before provision for income taxes	8,999	10,160	6,156	5,865	3,423
Provision for income taxes	2,782	2,804	1,486	1,474	1,123
Income from continuing operations	6,217	7,356	4,670	4,391	2,300
Income (loss) from discontinued operations before provision for income taxes	525	(965)	(1,781)	(217)	(13,614)
Provision (benefit) for income taxes	163	(266)	(430)	(55)	(4,466)
Income from discontinued operations	362	(699)	(1,351)	(162)	(9,148)
NET INCOME (LOSS)	6,579	6,657	3,319	4,229	(6,848)
NET INCOME (LOSS) PER SHARE:					
Continuing operations basic	$ 1.81	$ 2.22	$ 1.46	$ 1.38	$ 0.72
Discontinued operations basic	$ 0.11	$ (0.21)	$ (0.42)	$ (0.05)	$ (2.88)
Net basic	$ 1.92	$ 2.01	$ 1.04	$ 1.33	$ (2.16)
Continuing operations diluted	$ 1.75	$ 2.13	$ 1.45	$ 1.37	$ 0.72
Discontinued operations diluted	$ 0.10	$ (0.20)	$ (0.42)	$ (0.05)	$ (2.88)
Net diluted	$ 1.85	$ 1.93	$ 1.03	$ 1.32	$ (2.16)
Weighted average number of shares					
Basic	3,436	3,305	3,181	3,181	3,181
Diluted	3,555	3,444	3,213	3,206	3,186
BALANCE SHEET DATA (end of period):					
Total assets	$ 47,165	$ 44,894	$ 43,635	$ 47,960	$ 53,091
Working capital (deficit)	4,299	1,893	(4,802)	(7,990)	(6,569)
Long-term debt	-	-	7,226	9,547	21,700
Shareholders' equity	37,413	34,200	24,826	21,446	17,173
Shareholders' equity per share	10.89	10.35	7.80	6.74	5.40
Facilities in operations—end of year,					
Owned	44	45	40	40	46
Managed	4	3	1	1	1

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 October 1, 2005 each included 52 weeks. The fiscal year ended October 2, 2004 included 53 weeks.

Overview

The Company has reclassified its statements of operations data for the prior periods presented below, in accordance with FAS 144, as a result of the sale of three of the Company's restaurants and the closure of one restaurant during the fiscal year ended October 2, 2004 and the sale of another restaurant during the fiscal year ended October 1, 2005. The operations of these restaurants have been presented as discontinued operations for the fiscal years ended October 2, 2004 and October 1, 2005. See "Item 1 -Recent Restaurant Dispositions and Charges", "Item 7 - Recent Restaurant Dispositions" and Note 2 of Notes to Consolidated Financial Statements.

Revenues

Total revenues at restaurants owned by the Company decreased by 1.1% from fiscal 2004 to fiscal 2005 and increased by 12.4% from fiscal 2003 to fiscal 2004.

Same store sales decreased 0.9%, or $989,000, on a Company-wide basis from fiscal 2004 to fiscal 2005. This decrease was primarily due to the fact that fiscal 2004 contained an extra week of sales as opposed to fiscal 2005, resulting in a 4.0%, or $2,678,000, decrease in same store sales at the Company's Las Vegas restaurants, a 3.6%, or $1,122,000, increase in same store sales at the Company's New York restaurants and a 3.2%, or $567,000, increase in same store sales at the Company's Washington D.C. restaurants. If the fifty-third week of fiscal 2004 were excluded from same store sales, the result would be a 1.2%, or $1,381,000**,** increase in same store sales on a Company-wide basis, a 2.0%, or $1,312,000, decrease in same store sales at the Company's Las Vegas restaurants, a 5.7%, or $1,791,000, increase in same store sales at the Company's New York restaurants and a 5.3%, or $902,000, 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 a general improvement in economic conditions and the public's willingness and inclination to resume vacation and convention travel.

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. From fiscal 2002 to fiscal 2001 sales decreased at this location from $4,999,000 to $2,853,000, or 42.9%, resulting in the Company's decision to abandon these operations.

Of the $5,219,000 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 and door sales were $1,826,000 in fiscal 2005, $850,000 in fiscal 2004 and $679,000 in fiscal 2003.

Costs and Expenses

Food and beverage cost of sales as a percentage of total revenue was 25.1% in fiscal 2005, 25.5% in fiscal 2004 and 24.7% in fiscal 2003.

Total costs and expenses increased by $1,244,000, or 1.2%, from fiscal 2004 to fiscal 2005. The increase in the minimum wage in New York and Washington, D.C., the cost of compliance with the Sarbanes-Oxley Act and increased energy costs contributed to this increase.

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 $374,000 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.

Payroll expenses as a percentage of total revenues was 31.3% in fiscal 2005 compared to 31.2% in fiscal 2004 and 32.3% in fiscal 2003. Payroll expense was $36,212,000, $36,045,000 and $33,176,000 in fiscal 2005, 2004 and 2003, respectively. In fiscal 2003, 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. In fiscal 2005, the increase of the minimum wage in New York and Washington, D.C. resulted in an increase in payroll expenses. The Company continually evaluates its payroll expenses as they relate to sales.

No pre-opening expenses and early operating losses were incurred during fiscal 2005, 2004 or 2003. The Company did not open any new restaurants during fiscal 2005, 2004 and 2003. 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 6.3% in fiscal 2005, 5.6% in fiscal 2004 and 6.5% in fiscal 2003. The decrease in these expenses as a percentage of total revenue during fiscal 2004 is primarily due to increased total revenue during this period.

The Company managed two restaurants it did not own (*The Saloon* and *El Rio Grande*) and also managed the Tampa and Hollywood Florida food court operations at October 1, 2005. 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. Sales of *El Rio Grande*, which are not included in consolidated sales, were $3,262,000 in fiscal 2005, $2,786,000 in fiscal 2004 and $2,765,000 in fiscal 2003. The Company's lease of *The Saloon* was converted into a management agreement effective as of August 22, 2004, whereby the Company receives a management fee of $7,000 per month regardless of the results of operations of this restaurant. During fiscal 2004, the Company entered into agreements to manage 11 fast food restaurants located in the Hard Rock Casinos in Hollywood and Tampa, Florida. Sales from these operations totaled $8,843,000 during the 2005 fiscal year.

Interest expense was $25,000 in fiscal 2005, $190,000 in fiscal 2004 and $732,000 in fiscal 2003. 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 1, 2005, the Company had no borrowings on its credit facility. Interest income was $101,000 in fiscal 2005, $138,000 in fiscal 2004 and $162,000 in fiscal 2003.

Other income, which generally consists of purchasing service fees and other income at various restaurants, was $671,000, $595,000 and $973,000 for fiscal 2005, 2004 and 2003, 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 October 2, 2004 and October 1, 2005, 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 $125,000 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 $779,000 in fiscal 2005, $591,000 in fiscal 2004 and $132,000 in fiscal 2003.

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. During fiscal 2006, the Company and the Internal Revenue Service finalized the adjustments to the Company's Federal income tax returns for fiscal years 1999 through 2004. This 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 2005 of ($3,836,000) was primarily used for the replacement of fixed assets at existing restaurants and the construction of a restaurant and bar in Atlantic City, New Jersey. 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 2005 ($4,397,000), was principally used for the payment of dividends. The net cash used in financing activities in fiscal 2004 ($5,106,000) and fiscal 2003 ($8,356,000) 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 $4,299,000 at October 1, 2005 as compared to a working capital surplus of $1,893,000 at October 2, 2004.

The Company's Revolving Credit and Term Loan Facility (the "Facility") with its main bank (Bank Leumi USA), which 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, matured on March 12, 2005. The Company does not currently plan to enter into another credit facility and expects required cash to be provided by operations. As of October 1, 2005, the Company had no borrowings on its credit facility. The Facility also includes a $500,000 Letter of Credit Facility for use in lieu of lease security deposits. The Company has delivered $253,000 in irrevocable letters of credit on this Facility at October 1, 2005. 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.

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 was payable in 60 equal monthly installments through May 2005, was secured by such restaurant equipment. At October 1, 2005 the Company had nothing 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 had an option to purchase the equipment for $519,000 or 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. In November 2004, the Company chose to extend the lease for an additional 12 months.

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 1, 2005 $117,000 remained accrued in other current liabilities representing future operating lease payments.

A quarterly cash dividend in the amount of $0.35 per share was declared on October 12, 2004. Subsequent to October 12, 2004, quarterly cash dividends in the amount of $0.35 per share were declared on January 12, April 12, July 12 and October 11, 2005. Prior to this, the Company had not paid any cash dividends since its inception. The Company intends to continue to pay such quarterly cash dividend for the foreseeable future, however, the payment of future dividends is at the discretion of the Company's Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

Contractual Obligations and Commercial Commitments

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

	Payments Due by Period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
	(in thousands of dollars)				
Contractual Obligations:					
Operating Leases	58,528	7,631	12,348	10,443	28,106
Total Contractual Cash Obligations	$ 58,528	$ 7,631	$ 12,348	$ 10,443	$ 28,106

	Amount of Commitment Expiration Per Period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
	(in thousands of dollars)				
Other Commercial Commitments:					
Letters of Credit	$ 253	$ -	$ 253	$ -	$ -
Total Commercial Commitments	$ 253	$ -	$ 253	$ -	$ -

Restaurant Expansion

In December 2005, the Company opened a restaurant, *Gallagher's Steakhouse*, and a bar, *Luna Lounge*, at 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 loss of $60,000 during the fiscal year ended October 1, 2005 which is included in losses from discontinued operations. In fiscal 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.

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 $12,000 were included in losses from discontinued operations for the fiscal year ended October 1, 2005.

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. Net operating losses of $19,000 were included in losses from discontinued operations for the fiscal year ended October 1, 2005.

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. On January 19, 2005, the Company signed a definitive agreement for the sale of this restaurant which closed on March 15, 2005. The

Company realized a pre-tax gain of $644,000 on the sale of this restaurant. Net operating income of $47,000 was included in losses from discontinued operations for the fiscal year ended October 1, 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 cash flows 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.

Leases

The Company is obligated under various lease agreements for certain restaurants. The Company recognizes rent expense on a straight-line basis over the expected lease term, including option periods as described below. Within the provisions of certain leases there are escalations in payments over the base lease term, as well as renewal periods. The effects of the escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes option periods when it is deemed to be reasonably assured that the Company would incur an economic penalty for not exercising the option. Percentage rent expense is generally based upon sales levels and is expensed as incurred. Certain leases include both base rent and percentage rent. The Company records rent expense on these leases based upon reasonably assured sales levels. The consolidated financial statements reflect the same lease terms for amortizing leasehold improvements as were used in calculating straight-line rent expense for each restaurant. The judgments of the Company may produce materially different amounts of amortization and rent expense than would be reported if different lease terms were used.

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 charges were recorded during the fiscal years ended 2005, 2004 and 2003.

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. SFAS No. 123 (R) focuses primarily on accounting for transactions in which an entity obtains employee services through the issuance of stock options and other 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 annual reporting period that begins after December 15, 2005. SFAS No. 123 (R) shall be effective for the Company beginning in its first quarter of fiscal 2006. 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 27, 2003 through September 30, 2005 are as follows:

Calendar 2003	High	Low
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
Fourth Quarter	39.22	27.07
Calendar 2005		
First Quarter	41.88	29.61
Second Quarter	32.80	25.52
Third Quarter	34.59	27.26

Dividends

A quarterly cash dividend in the amount of $0.35 per share was declared on October 12, 2004. Subsequent to October 12, 2004, quarterly cash dividends in the amount of $0.35 per share were declared on January 12, April 12, July 12 and October 11, 2005. Prior to this, the Company had not paid any cash dividends since its inception. The Company intends to continue to pay such quarterly cash dividend for the foreseeable future, however, the payment of future dividends is at the discretion of the Company's Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

Number of Shareholders

As of December 9, 2005, there were 45 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.

INDEPENDENT AUDITORS' REPORT

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 sheets of Ark Restaurants Corp. and Subsidiaries as of October 1, 2005 and October 2, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 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 1, 2005 and October 2, 2004, and results of operations and cash flows for the years 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 23, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of Ark Restaurants Corp. and subsidiaries (the "Company") for the fiscal year ended September 27, 2003. 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. The Company is not required to have, nor were we engaged to perform, and audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Deloitte and Touche LLP /s/
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 1, 2005	October 2, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,723	$ 4,435
Accounts receivable	2,821	2,171
Employee receivables	294	330
Current portion of long-term receivables (Note 3)	299	208
Inventories	1,615	1,731
Deferred income taxes (Note 12)	630	630
Prepaid expenses and other current assets	1,417	1,615
Assets held for sale (Note 2)	-	128
Total current assets	12,799	11,248
LONG-TERM RECEIVABLES (Note 3)	1,275	1,082
FIXED ASSETS—At cost:		
Leasehold improvements	31,252	29,720
Furniture, fixtures and equipment	28,107	27,178
Construction in progress	1,782	-
	61,141	56,898
Less accumulated depreciation and amortization	37,096	33,437
	24,045	23,461
INTANGIBLE ASSETS—Net (Note 4)	198	224
GOODWILL	3,440	3,515
DEFERRED INCOME TAXES (Note 12)	4,679	4,591
OTHER ASSETS (Note 5)	729	773
TOTAL	$ 47,165	$ 44,894
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable—trade	$ 2,740	$ 2,230
Accrued expenses and other current liabilities (Note 6)	4,756	4,781
Current maturities of long-term debt (Note 7)	-	251
Accrued income taxes	1,004	2,093
Total current liabilities	8,500	9,355
OPERATING LEASE DEFERRED CREDIT (Notes 1 and 8)	878	899
OTHER LIABILITES (Note 2)	374	440
TOTAL LIABILITIES	9,752	10,694
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY (Notes 9, 10 and 16):		
Common stock, par value $.01 per share—authorized, 10,000 shares; issued 5,533 and 5,462 at October 1, 2005 and October 2, 2004, respectively	56	54
Additional paid-in capital	18,437	17,202
Retained earnings	27,472	25,694
	45,965	42,950
Less stock option receivable	166	364
Less treasury stock of 2,070 shares at October 1, 2005 and October 2, 2004	8,386	8,386
Total shareholders' equity	37,413	34,200
TOTAL	$ 47,165	$ 44,894

See notes to consolidated financial statements.

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

	Years Ended		
	October 1, 2005	**October 2, 2004**	**September 27, 2003**
REVENUES:			
Food and beverage sales	$ 113,751	$ 114,848	$ 102,054
Other income (Note 11)	1,826	850	679
Total revenues	115,577	115,698	102,733
COST AND EXPENSES:			
Food and beverage cost of sales	28,973	29,554	25,392
Payroll expenses	36,212	36,045	33,176
Occupancy expenses	16,505	15,900	15,525
Other operating costs and expenses	14,623	14,492	12,312
General and administrative expenses	7,318	6,499	6,665
Depreciation and amortization	3,694	3,591	3,910
Total cost and expenses	107,325	106,081	96,980
OPERATING INCOME	8,252	9,617	5,753
OTHER (INCOME) EXPENSE:			
Interest expense (Note 7)	25	190	732
Interest income	(101)	(138)	(162)
Other income (Note 13)	(671)	(595)	(973)
	(747)	(543)	(403)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,999	10,160	6,156
PROVISION FOR INCOME TAXES (Note 12)	2,782	2,804	1,486
INCOME FROM CONTINUING OPERATIONS	6,217	7,356	4,670
DISCONTINUED OPERATIONS:			
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED RESTAURANTS (INCLUDING NET GAINS ON DISPOSAL OF $644,000 FOR THE FISCAL YEAR ENDED OCTOBER 1, 2005 AND NET LOSSES OF $168,000 ON DISPOSAL FOR THE FISCAL YEAR ENDED OCTOBER 2, 2004)	525	(965)	(1,781)
PROVISION (BENEFIT) FOR INCOME TAXES (Note 12)	163	(266)	(430)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	362	(699)	$ (1,351)
NET INCOME	$ 6,579	$ 6,657	$ 3,319
PER SHARE INFORMATION - BASIC AND DILUTED			
Continuing operations basic	$ 1.81	$ 2.22	$ 1.46
Discontinued operations basic	$ 0.11	$ (0.21)	$ (0.42)
NET BASIC	$ 1.92	$ 2.01	$ 1.04
Continuing operations diluted	$ 1.75	$ 2.13	$ 1.45
Discontinued operations diluted	$ 0.10	$ (0.20)	$ (0.42)
NET DILUTED	$ 1.85	$ 1.93	$ 1.03
WEIGHTED AVERAGE NUMBER OF SHARES—Basic	3,436	3,305	3,181
WEIGHTED AVERAGE NUMBER OF SHARES—Diluted	3,555	3,444	3,213

See notes to consolidated financial statements.

ARK RESTAURANT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended		
	October 1, 2005	**October 2, 2004**	**September 27, 2003**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	$ 6,217	$ 7,356	$ 4,670
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Deferred income taxes	187	(144)	(355)
Depreciation and amortization	3,694	3,591	3,910
Operating lease deferred credit	(21)	53	4
Changes in operating assets and liabilities			
Receivables	(650)	(514)	288
Employee receivables	36	(75)	790
Inventories	116	133	(65)
Prepaid expenses and other current assets	198	(1,025)	18
Prepaid income taxes	-	-	957
Other assets	43	208	(314)
Accounts payable - trade	510	(1,213)	111
Accrued income taxes	(583)	1,357	1198
Accrued expenses and other current liabilities	(25)	(805)	(770)
Net cash provided by operating activities	9,722	8,922	10,442
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(4,252)	(1,529)	(1,603)
Payments received on note receivables	416	193	169
Net cash used in investing activities	(3,836)	(1,336)	(1,434)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	-	-	1,100
Principal payments on long-term debt	(251)	(7,328)	(9,355)
Exercise of stock options	457	1,966	-
Payments received under stock options receivables	198	291	61
Payment of debt issuance costs	-	-	(162)
Payment of dividends	(4,801)	-	-
Purchase of treasury stock	-	(35)	-
Net cash used in financing activities	(4,397)	(5,106)	(8,356)
NET CASH PROVIDED BY CONTINUING OPERATIONS	1,489	2,480	652
NET CASH (USED IN) PROVIDED BY DISCONTINUED OPERATIONS	(201)	1,469	(985)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,288	3,949	(333)
CASH AND CASH EQUIVALENTS—Beginning of year	4,435	486	819
CASH AND CASH EQUIVALENTS—End of year	$ 5,723	$ 4,435	$ 486
SUPPLEMENTAL INFORMATION:			
Cash payments for:			
Interest	$ 25	$ 264	$ 768
Income taxes	$ 3,341	$ 1,455	$ 114
SUPPLEMENTAL DICLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Tax benefit on exercise of stock options	$ 780	$ 495	$ -

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED OCTOBER 1, 2005, OCTOBER 2, 2004 AND SEPTEMBER 27, 2003
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Stock Options Receivable	Total Shareholders' Equity
	Shares	Amount					
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
Exercise of stock options	71	2	455	-	-	-	457
Tax benefit on exercise of options	-	-	780	-	-	-	780
Payment on stock options receivables	-	-	-	-	-	198	198
Payment of dividends - $1.40 per share				(4,801)	-	-	(4,801)
Net income	-	-	-	6,579	-	-	6,579
BALANCE—October 1, 2005	5,533	$ 56	$ 18,437	$ 27,472	$ (8,386)	$ (166)	$ 37,413

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ark Restaurants Corp. and subsidiaries (the "Company") own and operate 23 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. One restaurant and one bar are located in the Resorts Casino in Atlantic City, New Jersey.

Accounting Period**—**The Company's fiscal year ends on the Saturday nearest September 30. The fiscal year ended October 1, 2005 included 52 weeks. The fiscal years ended October 2, 2004 and September 27, 2003 included 53 weeks and 52 weeks, respectively.

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 it believes 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 intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents—Cash equivalents include instruments with maturities of three months or less, when purchased.

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 30 years. For leases with renewal periods at the Company's option, if failure to exercise a renewal option imposes an economic penalty to the Company, management may determine at the inception of the lease that renewal is reasonably assured and include the renewal option period in the determination of appropriate estimated useful lives.

The Company includes in construction in progress improvements in restaurants that are under construction. Once the projects have been completed, the Company will begin depreciating and 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 1, 2005 and October 2, 2004, 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 of SFAS No. 142, *Accounting for Goodwill and Other Intangible Assets.* This statement requires that for the Company 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. SFAS No. 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 charges were recorded during the fiscal years ended 2005, 2004 and 2003.

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 $28,000, $27,000 and $15,000 for the years ended October 1, 2005, October 2, 2004, and September 27, 2003, respectively.

Leases – The Company is obligated under various lease agreements for certain restaurants. The Company recognizes rent expense on a straight-line basis over the expected lease term, including option periods as described below. Within the provisions of certain leases there are escalations in payments over the base lease term, as well as renewal periods. The effects of the escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes option periods when it is deemed to be reasonably assured that the Company would incur an economic penalty for not exercising the option. Percentage rent expense is generally based upon sales levels and is expensed as incurred. Certain leases include both base rent and percentage rent. The Company records rent expense on these leases based upon reasonably assured sales levels. The consolidated financial statements reflect the same lease terms for amortizing leasehold improvements as were used in calculating straight-line rent expense for each restaurant. The judgments of the Company may produce materially different amounts of amortization and rent expense than would be reported if different lease terms were used.

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 were 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. Diluted 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 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 provisions 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. During fiscal 2005 194,000 options to purchase common stock were granted. There were no options granted during fiscal 2004 and 2003 and no charges to operations for options issued to employees during fiscal 2005, 2004 and 2003.

In accordance with Statement of Financial Accounting Standards No. 148 ("SFAS No. 148") and SFAS No. 123, the Company's pro forma option expense is computed using Black-Scholes option pricing model. To comply with SFAS No. 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 No. 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 1, 2005	Years Ended October 2, 2004	Years Ended September 27, 2003
	(In thousands, except per share amounts)		
Net income as reported	$ 6,579	$ 6,657	$ 3,319
Deduct stock based compensation expense computed under the fair value method	494	85	118
Net income - pro forma	$ 6,085	$ 6,572	$ 3,201
Net income per share as reported - basic	$ 1.92	$ 2.01	$ 1.04
Net income per share as reported - diluted	$ 1.85	$ 1.93	$ 1.03
Net income per share pro forma - basic	$ 1.77	$ 1.99	$ 1.01
Net income per share pro forma - diluted	$ 1.71	$ 1.91	$ 1.00

On December 21, 2004, the company granted options to employees to purchase 194,000 shares of common stock at a price of $29.60 per share. These options will vest after two years and expire ten years after the date of grant. The Company did not record any intrinsic value for these options. The assumptions used for fiscal 2005 for the pro forma effects of options granted on December 21, 2004 included a risk-free interest rate of 3.37%, volatility of 37%, a dividend yield of 3% and an expected life of three years.

***Reclassifications*—**Certain reclassifications of prior year balances have been made to conform to the 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 8% per annum. Net operating losses of $60,000 were included in losses from discontinued operations for the fiscal year ended October 1, 2005.

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. Net operating losses of $12,000 were included in losses from discontinued operations for the fiscal year ended October 1, 2005.

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. Net operating losses of $19,000 were included in losses from discontinued operations for the fiscal year ended October 1, 2005.

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. On January 19, 2005, the Company signed a definitive agreement for the sale of this restaurant which closed on March 15, 2005. The Company realized a pre-tax gain of $644,000 on the sale of this restaurant. Net operating income of $47,000 was recorded in income from discontinued operations for the fiscal year ended October 1, 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 $1,871,000, $6,501,000 and $13,860,000 in fiscal 2005, 2004 and 2003, respectively.

As a result of the above mentioned sales, the Company allocated $75,000 of goodwill to these restaurants and reduced goodwill by this amount in fiscal 2005.

3. LONG-TERM RECEIVABLES

Long-term receivables consist of the following:

	October 1, 2005	October 2, 2004
	(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)	$ 111	$ 192
Note receivable collateralized by fixed assets and lease at a restaurant sold by the Company, at 7.5% interest; due in monthly installments through December 2008 (b)	788	1,009
Note receivable collateralized by fixed assets and lease at a restaurant sold by the Company, at 7.0% interest; due in monthly installments through December 2007 (c)	-	89
Note receivable collateralized by fixed assets and lease at a restaurant sold by the Company, at 6% interest, due in monthly installments through June 2011 (d)	675	-
	1,574	1,290
Less current portion	299	208
	$ 1,275	$ 1,082

(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 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 was due in installments through December 2007. The buyer fully paid the note during fiscal 2005.

(d) In March 2005, the Company sold this restaurant for $1,300,000. Cash of $600,000 was included on the sale. Of the $600,000 cash, $200,000 was paid to the Company as a fee to manage the restaurant for four months prior to closure and the balance was paid directly to the landlord. The remaining $700,000 was received in the form of a note payable in installments through June 2011.

The Company recognized a gain during the year ended October 1, 2005 of $644,000.

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 1, 2005	October 2, 2004
	(In thousands)	
Purchased leasehold rights (a)	$ 611	$ 611
Noncompete agreements and other	600	600
	1,211	1,211
Less accumulated amortization	1,013	987
Total intangible assets	$ 198	$ 224

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

5. OTHER ASSETS

Other assets consist of the following:

	October 1, 2005	October 2, 2004
	(In thousands)	
Deposits and other	$ 350	$ 350
Deferred financing fees	-	27
Landlord receivable (a)	379	396
	$ 729	$ 773

(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 1, 2005	October 2, 2004
	(In thousands)	
Sales tax payable	$ 763	$ 833
Accrued wages and payroll related costs	1,756	1,430
Customer advance deposits	986	853
Accrued and other liabilities	1,134	1,169
Abandonment accrual (a)	117	496
	$ 4,756	$ 4,781

(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.

7. NOTES PAYABLE

The Company's debt consisted of the following:

	October 1, 2005	October 2, 2004
	(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
		251
Less current maturities	-	251
	$ -	$ -

(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, paid off in May 2005.

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 2021. 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 1, 2005, future minimum lease payments under noncancelable leases are as follows:

Fiscal Year	Amount (In thousands)
2006	$ 7,631
2007	6,537
2008	5,811
2009	5,349
2010	5,094
Thereafter	28,106
Total minimum payments	$ 58,528

In connection with the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of $253,000 as security deposits under such leases.

Rent expense was $11,978,000, $12,104,000 and $11,027,000 during the fiscal years ended October 1, 2005, October 2, 2004 and September 27, 2003, respectively. Contingent rentals, included in rent expense, were $4,160,000, $4,153,000 and $3,366,000 for the fiscal years ended October 1, 2005, October 2, 2004 and September 27, 2003, respectively.

In August 2004, the Company entered into a lease agreement to operate a Gallagher's Steakhouse and separate bar, Lunar Lounge, 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. The Company estimates the Company will provide an additional $1,000,000 towards the construction. The bar opened in December 2005 and the Company anticipates that the restaurant will be opened on New Years Eve 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. In October 2003, the Company's landlord for its executive, administrative and clerical offices located in New York, New York commenced an action against the Company in the Supreme Court, New York County asserting the Company had failed to validly exercise its option with respect to the premises at issue and that the Landlord was entitled to immediate and exclusive possession of the premises. The Company answered and asserted affirmative defenses and counterclaims. By an order dated May 25, 2004, the court denied the landlord's motion for summary judgment on its complaint while granting, in part, the landlord's motion to dismiss the Company's affirmative defenses and counterclaims. Both the landlord and the Company appealed from the May 25, 2004 order, but no decision on the appeals has been issued. Pending the outcome of this litigation, the Company remains in possession of the premises.

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 years ended October 1, 2005 and September 27, 2003, there were no repurchases of common stock. For the year ended October 2, 2004 the Company repurchased 2,500 shares at a total cost of $35,000.

10. STOCK OPTIONS

The Company has options outstanding under two stock option plans, the 1996 Stock Option Plan (the "1996 Plan) and the 2004 Stock Option Plan (the "2004 Plan"). In 2004 the Company terminated the 1996 Plan. This action terminated the 257,000 authorized but unissued options under the 1996 Plan but it did not affect any of the options previously issued under the 1996 Plan.

Options granted under the 1996 Plan 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 grant date.

Options granted under the 2004 Plan 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 ten years after the date of grant and are generally exercisable as to 50% of the shares commencing on the first anniversary of the date of grant and as to an additional 50% commencing on the second anniversary of the date of grant.

Additional information follows:

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	178,000	$ 7.91	392,500	$ 7.91	392,500	$ 7.91
Options:						
Granted	194,000	29.60	-		-	
Exercised	(71,000)	6.47	(212,500)	9.18	-	
Canceled or expired	-		(2,000)	10.00	-	
Outstanding, end of year (a)	301,000	21.32	178,000	6.30	392,500	7.91
Exercise price, outstanding options	$6.30 - 29.60		$6.30 - 7.50		$6.30 - 10.00	
Weighted average years	6.38 Years		2.14 Years		2.06 Years	
Shares available for future grant (b)	256,000		450,000		257,000	
Options exercisable (a)	107,000	6.30	60,500	6.30	220,000	9.10
Fair value of options granted	194,000	8.13	-		-	

(a) Options become exercisable at various times until expiration dates ranging from December 2003 through December 2014.

(b) The 2004 Stock Option Plan, which was approved by shareholders, is the Company's only equity compensation plan currently in effect. Under the 2004 Stock Option Plan, 450,000 options were authorized for future grant and 194,000 of these options were issued during fiscal 2005. The Company, with the approval of the shareholders, terminated the 1996 Stock option Plan. This action terminated the 257,000 authorized but unissued options under the 1996 Stock Option Plan but it did not affect any of the options previously issued under the 1996 Stock Option Plan.

11. MANAGEMENT FEE INCOME

As of October 1, 2005, 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 $1,568,000, $386,000 and $120,000 for the years ended October 1, 2005, October 2, 2004 and September 27, 2003, respectively.

Restaurants managed had sales of $12,105,000, $9,566,000 and $2,765,000 during the management periods within the years ended October 1, 2005, October 2, 2004 and September 27, 2003, 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 1, 2005	October 2, 2004 (In thousands)	September 27, 2003
Current provision (benefit):			
Federal	$ 2,189	$ 2,168	$ 1,534
State and local	569	514	316
	2,758	2,682	1,850
Deferred provision (benefit):			
Federal	413	259	3
State and local	(226)	(403)	(797)
	187	(144)	(794)
	$ 2,945	$ 2,538	$ 1,056

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

	Years Ended		
	October 1, 2005	October 2, 2004 (In thousands)	September 27, 2003
Provision for Federal income taxes (34%)	$ 3,238	$ 3,126	$ 1,488
State and local income taxes net of Federal tax benefit	309	334	208
Tax credits	(514)	(591)	(132)
State and local net operating loss carryforward allowance adjustment	(125)	(395)	(445)
Other	37	64	(63)
	$ 2,945	$ 2,538	$ 1,056

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 1, 2005	October 2, 2004
	(In thousands)	
Current deferred tax assets (liabilities):		
Operating loss carryforwards	$ 300	$ 300
Carryforward tax credits	600	600
Inventory	(270)	(270)
Total current net deferred tax assets	630	630
Long-term deferred tax assets (liabilities):		
Operating loss carryforwards	$ 1,853	$ 1,828
Operating lease deferred credits	320	377
Carryforward tax credits	3,970	4,424
Depreciation and amortization	(973)	(1,598)
Deferred gains	(260)	(107)
Valuation allowance	(358)	(486)
Pension withdrawal liability	127	153
Total long-term net deferred tax assets	4,679	4,591
Total net deferred tax assets	$ 5,309	$ 5,221

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 $358,000 at October 1, 2005, $486,000 at 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 $125,000 and $395,000 for the years ended October 1, 2005 and October 2, 2004, respectively, based on the merger of certain unprofitable subsidiaries into profitable ones. The Company has state operating loss carryforwards of $27,296,000, which expire in the years 2006 through 2020.

Subsequent to the fiscal year ended October 1, 2005 the Company agreed to a settlement with the Internal Revenue Service which covered fiscal years ended October 2, 1999 through October 2, 2004. The final adjustments primarily involve the timing of deductions made during the fiscal year ended September 28, 2003 relating to the abandonment of the Company's restaurant and food court operations at Desert Passage which adjoins the Aladdin Casino Resort in Las Vegas, Nevada. This settlement did not have a material effect on the Company's financial condition.

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 1, 2005	October 2, 2004	September 27, 2003
		(In thousands)	
Purchasing service fees	$ 41	$ 61	$ 58
World Trade Center Recovery Grants (a)	-	-	508
Other	630	534	407
	$ 671	$ 595	$ 973

(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 1, 2005, October 2, 2004 and September 27, 2003 follows.

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	(In thousands, except per share amounts)		
Year ended October 1, 2005:			
Basic EPS	$ 6,579	3,436	$ 1.92
Stock options	-	119	(0.07)
Diluted EPS	$ 6,579	3,555	$ 1.85
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

For the year ended September 27, 2003, stock options for shares of 168,000 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			
	January 1, 2005	April 2, 2005	July 2, 2005	October 1, 2005
	(In thousands except per share amounts)			
2005				
Food and beverage sales	$ 26,734	$ 24,309	$ 32,205	$ 30,503
Income from continuing operations	1,169	135	2,850	2,063
Income (loss) from discontinued operations	15	419	(28)	(44)
Net income (loss)	1,184	554	2,822	2,019
Per share information - basic and diluted:				
Continuing operations basic	$ 0.34	$ 0.04	$ 0.82	$ 0.60
Discontinued operations basic	0.01	0.12	0.00	(0.01)
Net basic	$ 0.35	$ 0.16	$ 0.82	$ 0.59
Continuing operations diluted	$ 0.33	$ 0.04	$ 0.80	$ 0.58
Discontinued operations diluted	0.01	0.12	0.00	(0.01)
Net diluted	$ 0.34	$ 0.16	$ 0.80	$ 0.57

	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
Income from continuing operations	418	494	3,094	3,350
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

16. STOCK OPTION RECEIVABLES

Stock option receivables include amounts due from officers and directors totaling $166,000 and $364,000 at October 1, 2005 and October 2, 2004, 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 (6.75% at October 1, 2005 and 4% at October 2, 2004).

17. RELATED PARTY TRANSACTIONS

Receivables due from officers and directors, excluding stock option receivables, totaled $37,000 at October 1, 2005 compared to $52,000 at October 2, 2004. Other employee loans totaled $257,000 at October1, 2005 compared to $278,000 at October 1, 2004. Such loans bear interest at the minimum statutory rate (3.83% at October 1, 2005 and 2.24% at October 2, 2004).

18. SUBSEQUENT EVENTS

On October 11, 2005 the Company declared its regular quarterly dividend of $.35 per share on the Company's outstanding common stock payable November 1, 2005 to shareholders of record at the close of business October 21, 2005. On November 1, 2005 the Company paid dividends of $1,212,000.

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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.

Arthur Stainman
Senior Managing Director, First Manhattan Co.

Edward Lowenthal
President, Ackeman Management, LLC

Stephen Novick
Senior Advisor, Andrea and Charles Bronfman Philanthropies

Robert Thomas Zankel
Portfolio Manager, Iridian Asset Management LLC

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