Ark Restaurants Corp.

2006 ANNUAL REPORT

The Company

We are a New York corporation formed in 1983. As of the fiscal year ended September 30, 2006, we owned and/or operated 23 restaurants and bars, 25 fast food concepts, catering operations, and wholesale and retail bakeries through our subsidiaries. When the Company started, our facilities were located only in New York City. As of the fiscal year ended September 30, 2006, seven of our restaurants are located in New York City, four are located in Washington, D.C., eight are located in Las Vegas, Nevada, two are located in Atlantic City, New Jersey, and two are located at the Foxwoods Resort Casino in Ledyard, Connecticut. As of the fiscal year ended September 30, 2006, our Las Vegas operations included:

- 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 three food court facilities at the Venetian Casino Resort; and
- one restaurant within the Forum Shops at Caesar's Shopping Center.

We will provide without charge a copy of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, including financial statements and schedules thereto, to each of our shareholders of record on February 6, 2007 and each beneficial holder on that date, upon receipt of a written request therefore mailed our offices, 85 Fifth Avenue, New York, NY 10003 Attention: Treasurer.

February 9, 2007

Dear Shareholders:

Annually, I sit down and try to best convey the past year's events that impacted our balance sheet and income statements and review the business principals which govern our actions. While numbers do speak for themselves, those numbers are better understood within a context of your management mission to maximize cash flow and create value for shareholders.

If you have been a reader of these letters in past years you know that we are conservative. We have no long term debt, a strong balance sheet and a strong working capital position. Annually, we pay a $1.40 dividend for each common share.

We do not have any inclinations to expand unless we can enter a business on terms which meet several criteria. The locations we choose must be in highly visible landmarks with favorable demand (people vs. restaurant seats). This has led us to casinos, train stations and public parks. Our lease costs must be reasonable. Generally in newly negotiated restaurant operations we try to pay 10% of our sales for rent, real estate taxes, common area charges and utilities. We ask landlord/developers to participate in the capital structure of our business by subsidizing our construction costs with tenant improvement money. When this money is not available we seek partners to provide the capital for new opportunities when we believe returns can be favorable to their investment and to our management efforts. Our aim is to lower risk; our cash is precious. Occasionally, we will find a situation where it is appropriate to invest our own money and not take on partners. Significantly, we are in constant review of our portfolio of restaurant businesses. We do not want to stick around when the economics of a business decline and cannot be fixed, locking up our capital or partners capital in underperforming assets. In such cases we look to sell these businesses (or, if needed, close them).

In fiscal 2006 our balance sheet and cash position improved, we paid a $1.40 per common share dividend and EBITDA from continuing operations before accounting for stock options was slightly down from the prior year. The primary reason for lower EBITDA was the under utilization of outdoor café seats in our Washington, D.C. and New York City restaurants as a result of sustained rains during the spring and summer months. We believe higher gas prices affected our Las Vegas business as a substantial number of those customers are California drivers.

Beyond the numbers there was a healthy amount of activity. We indicated in last year's letter that we had been working with the Venetian Hotel in Las Vegas to reconfigure or relocate several of our operations within the hotel. A favorable outcome was achieved shortly after the end of fiscal 2006 whereby we sold our Lutece and Tsunami restaurants back to the Venetian for $14 million. This sale will have a small impact on future EBITDA. Since we did not need that money to operate our business we decided to declare a special dividend of $3.00 for each common share, which was paid February 1, 2007. We are in negotiations to sell our Vivid operation in the Venetian as well. When this is completed we will have three fast food operations and one bar lounge remaining at the hotel providing us with a reasonably good return. Our returns at the New York, New York Hotel, which benefited from the expansion of Gonzalez y Gonzalez, and our returns at The Stage Deli at Caesars Forum Shops remain excellent. Additionally in Las Vegas, we have signed a lease with The Planet Hollywood Hotel for a Mexican restaurant to open in the late spring of our current year.

We opened our Gallagher's Steak House and Luna Lounge in Atlantic City's Resorts International Hotel and casino on New Years Day 2006. Recently we changed the lounge to a burger bar and with this we are now solidly profitable with good returns on our investment.

During this past year we started a negotiation to purchase the landmark Boston restaurant Durgin Park. We became the owners on January 8, 2007. We have great confidence that this was a good acquisition for the Company as it meets the criteria of being a landmark location with an excellent lease. A portion of the purchase price was financed by the seller.

Also, during the past year we started to operate quick serve restaurants at the Foxwoods Hotel & Casino in Connecticut. In December 2006, we began operating a small full service restaurant at an adjoining Foxwood's owned hotel. None of these will provide us with substantial cash flow, but we do expect this relationship to provide us with more opportunities over time.

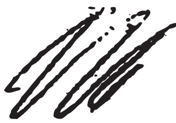
In addition we have commenced dialogues for business that we anticipate will open in fiscal 2008. We believe that the sum of all these activities will enhance the quality of our portfolio and create more reliable cash flow for shareholders.

What was true in fiscal 2005 was also influential in fiscal 2006. Minimum wage increases continued to be phased into our operating costs in New York City and Washington, DC. Energy costs continued to climb, as did accounting and legal costs as a result of securities law regulations.

In fiscal 2006, our comparative sales were up 5.8% in New York City, 18.4% in Florida, down 1.3% in Las Vegas and down 7.6% in Washington DC. I have mentioned weather in the Northeast as a factor on our EBITDA. I must tell you that we were disappointed beyond the weather excuse in our results in Washington. Our properties in that city meet our criteria for operating a business. Last year we failed to execute on the opportunity at these businesses. We are working hard to correct this situation.

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, Connecticut
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
Shannon Speaks, The Grill Room
Cynthia Almonte, Columbus Bakery I
Stephanie Torres, Columbus Bakery III
Kelly Gallo, Canyon Road
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
Charles Gerbino, Las Vegas Employee Dining Facility
Michael Credico, Gallagher's Steakhouse
Paul Savoy, Executive Sous Chef, Las Vegas Operations
John Hausdorf, Las Vegas Room Service
Staci Green, Director of Sales, Las Vegas Operations
Mary Massa, Gonzalez y Gonzalez
Craig Tribus, America
Ivonne Escobedo, Village Streets
Gary Bogel, Stage Deli
Maria Medina, Venetian Food Court
Leah Swift, V-Bar

Restaurant Manager—Atlantic City
Donna McCarthy, Gallagher's Steakhouse and Burger Bar

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

Restaurant Manager—Foxwoods
Patricia Reyes, The Grill at Two Trees, Lucky Seven and Fifth Street Cafe

Restaurant Manager—Boston
Seana Kelley, Durgin Park

Restaurant Chefs—New York
Armando Cortes, The Grill Room
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
Dave Simmons, Gallagher's Steakhouse
Joshua Schlink, Banquets
Richard Harris, Las Vegas Employee Dining Facility
Sergio Salazar, Gonzalez y Gonzalez

Restaurant Chef—Atlantic City
Sergio Soto, Gallagher's Steakhouse

Restaurant Chefs—Florida
Carlos Garcia Rios, Hollywood Food Court
Artemio Espinoza, Tampa Food Court

Restaurant Chef—Foxwoods
Rosalio Fuentes, The Grill at Two Trees, Lucky Seven and Fifth Street Cafe

Restaurant Chef—Boston
Tom Ryan, Durgin Park

Selected Consolidated Financial Data

The following table sets forth certain financial data for the fiscal years ended in 2002 through 2006. During fiscal year 2004, we sold three of our restaurants and closed one restaurant. During fiscal year 2005, we sold one of our restaurants which was considered held for sale in accordance with FAS 144 during part of fiscal year 2004 and part of fiscal year 2005. During fiscal year 2006, we classified one of our restaurants as held for sale in accordance with FAS 144 and closed one restaurant. The operations of these restaurants have been presented as discontinued operations for the 2004, 2005 and 2006 fiscal years, and we have reclassified its statements of operations data for all periods presented, in accordance with FAS 144. This information should be read in conjunction with our Consolidated Financial Statements and the notes thereto beginning at page F-1.

	Years Ended				
	September 30, 2006	October 1, 2005	October 2, 2004	September 27, 2003	September 28, 2002
	(In thousands, except per share data)				
OPERATING DATA:					
Total revenues	$ 115,969	$ 113,237	$ 112,271	$ 99,153	$ 99,709
Cost and expenses	(108,253)	(104,127)	(102,824)	(94,069)	(92,663)
Operating income	7,716	9,110	9,447	5,084	7,046
Other (income) expense, net	(795)	(748)	(542)	(404)	611
Income from continuing operations before provision for income taxes	8,511	9,858	9,989	5,488	7,657
Provision for income taxes	2,824	3,048	2,757	1,325	1,617
Income from continuing operations	5,687	6,810	7,232	4,163	6,040
Loss from discontinued operations before benefit for income taxes	(699)	(334)	(794)	(1,113)	(787)
Benefit for income taxes	(232)	(103)	(219)	(269)	(198)
Loss from discontinued operations	(467)	(231)	(575)	(844)	(589)
NET INCOME	5,220	6,579	6,657	3,319	5,451
NET INCOME (LOSS) PER SHARE:					
Continuing operations basic	$ 1.64	$ 1.98	$ 2.19	$ 1.31	$ 1.52
Discontinued operations basic	$ (0.14)	$ (0.06)	$ (0.18)	$ (0.27)	$ (0.19)
Net basic	$ 1.50	$ 1.92	$ 2.01	$ 1.04	$ 1.33
Continuing operations diluted	$ 1.60	$ 1.92	$ 2.10	$ 1.30	$ 1.50
Discontinued operations diluted	$ (0.13)	$ (0.07)	$ (0.17)	$ (0.27)	$ (0.18)
Net diluted	$ 1.47	$ 1.85	$ 1.93	$ 1.03	$ 1.32
Weighted average number of shares					
Basic	3,472	3,436	3,305	3,181	3,181
Diluted	3,548	3,555	3,444	3,213	3,206
BALANCE SHEET DATA (end of period):					
Total assets	$ 52,120	$ 47,435	$ 44,894	$ 43,635	$ 47,960
Working capital (deficit)	8,398	3,399	1,893	(4,802)	(7,990)
Long-term debt		—	—	7,226	9,547
Shareholders' equity	39,753	37,413	34,200	24,826	21,446
Shareholders' equity per share	11.45	10.89	10.35	7.80	6.74
Facilities in operation—end of year,					
Owned	43	44	45	40	40
Managed	5	4	3	1	1

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

Accounting period

Our fiscal year ends on the Saturday nearest September 30. We report 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 analysis of operating results. Under this method, certain years will contain 53 weeks. The fiscal year ended October 1, 2005 and September 30, 2006 each included 52 weeks. The fiscal year ended October 2, 2004 included 53 weeks.

Overview

We have reclassified our statements of operations data for the prior periods presented below, in accordance with FAS 144, as a result of the sale of three of our restaurants and the closure of one restaurant during the fiscal year ended October 2, 2004, the sale of another restaurant during the fiscal year ended October 1, 2005 and the classification of another restaurant as held for sale and the closure of one restaurant during the fiscal year ended September 30, 2006. The operations of these restaurants have been presented as discontinued operations for the fiscal years ended October 2, 2004, October 1, 2005 and September 30, 2006. See "Item 1—Recent Restaurant Dispositions and Charges", "Item 7—Recent Restaurant Dispositions" and Note 2 of Consolidated Financial Statements.

Revenues

Total revenues increased by 2.4% from fiscal 2005 to fiscal 2006 and increased by 0.9% from fiscal 2004 to fiscal 2005. Revenues for fiscal 2006 were reduced by $1,159,000 and revenues for fiscal 2005 were reduced by $4,010,000 as a result of the sale of one facility, the classification of one facility as "held for sale", the closure of one facility and their reclassification to discontinued operations.

Same store sales increased 0.2%, or $244,000, on a Company-wide basis from fiscal 2005 to fiscal 2006. Same store sales in Las Vegas decreased by $63,000, or 1.3%, in fiscal 2006 compared to fiscal 2005 generally because of less than expected business at the Venetian Casino Resort. We sold our Tsunami and Lutece locations at the Venetian Casino Resort effective December 1, 2006. Same store sales in New York increased $1,862,000, or 5.8%, during fiscal 2006. Same store sales in Washington D.C. decreased by $1,364,000, or 7.6%, during fiscal 2006. The increase in New York was principally due to a general improvement in economic conditions and the public's willingness and inclination to resume vacation and convention travel. The decrease in Washington, D.C. was principally due to poor weather.

During the fourth quarter of 2002 we abandoned our 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 our 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 $2,423,000 in fiscal 2006, $1,826,000 in fiscal 2005 and $742,000 in fiscal 2004.

Costs and Expenses

Food and beverage cost of sales as a percentage of total revenue was 25.3% in fiscal 2006, 25.2% in fiscal 2005 and 25.8% in fiscal 2004.

Total costs and expenses increased by $4,126,000, or 4.0%, from fiscal 2005 to fiscal 2006 primarily due to an increase in revenue, in the minimum wage in New York and Washington, D.C., a $748,000 expense related to our share-based compensation plan and increased occupancy costs.

Total costs and expenses increased by $1,303,000, or 1.3%, 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. Other operating costs and expenses also increased in fiscal 2004 due to an increase in total revenue and a one time charge of $270,000 used to pay for casino entertainment tax liability. We had previously thought that certain of our 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 we determined to include such charge in other operating costs and expenses.

Payroll expenses as a percentage of total revenues was 32.3% in fiscal 2006 compared to 31.4% in fiscal 2005 and 31.5% in fiscal 2004. Payroll expense was $37,418,000, $35,550,000 and $35,363,000 in fiscal 2006, 2005 and 2004, respectively. In fiscal 2003, we had aggressively adapted our cost structure in response to lower sales expectations following September 11th. Due to the increase in sales during fiscal 2004, we had increased our payroll expenses incrementally. In fiscal 2005 and 2006, the increase of the minimum wage in New York and Washington, D.C. resulted in an increase in payroll expenses. We continually evaluate our payroll expenses as they relate to sales.

We typically incur significant pre-opening expenses in connection with our new restaurants that are expensed as incurred. Furthermore, it is not uncommon that such restaurants experience operating losses during the early months of operation.

In fiscal 2006, we established operations in Atlantic City, New Jersey by opening a bar, *Luna Lounge*, and a separate restaurant, a *Gallagher's Steakhouse*, in the Resorts Atlantic City Hotel and Casino. We experienced $447,000 in pre-opening and early operating losses at these facilities in fiscal 2006. Further during fiscal 2006, we established operations at the Foxwoods Resort Casino in Ledyard, Connecticut by opening a restaurant, *The Fifth Street Cafe*, in its newly expanded poker room in March 2006 and a fast-casual restaurant, *Lucky Seven*, in the Bingo Hall in May 2006. All pre-opening expenses at Foxwoods were borne by outside investors who invested in a limited liability company established to develop, construct, operate and manage these facilities. We did not open any new restaurants and no pre-opening expenses and early operating losses were incurred during fiscal 2005 and 2004.

General and administrative expenses, as a percentage of total revenue, were 6.2% in fiscal 2006, 6.5% in fiscal 2005 and 5.8% in fiscal 2004.

During the fiscal year ended September 30, 2006, we managed two restaurants (*The Saloon* and *El Rio Grande*), managed the Tampa and Hollywood Florida food court operations and the Foxwoods fast food operations. We managed two restaurants (*The Saloon* and *El Rio Grande*) and managed the Tampa and Hollywood Florida food court operations during the fiscal year ended October 1, 2005. We managed two restaurants (*The Saloon* and *El Rio Grande*) during the fiscal year ended October 2, 2004. Sales of *El Rio Grande*, which are not included in consolidated sales, were $3,519,000 in fiscal 2006, $3,345,000 in fiscal 2005 and $2,786,000 in fiscal 2004. Our lease of *The Saloon* was converted into a management agreement effective as of August 22, 2004, whereby we received a management fee of $7,000 per month regardless of the results of operations of this restaurant. This restaurant closed effective July 25, 2006. During fiscal 2004, we entered into agreements to manage 13 fast food restaurants located in the Hard Rock Casinos in Hollywood and Tampa, Florida. Sales from these operations totaled $10,469,000 during the 2006 fiscal year and $8,843,000 during the 2005 fiscal year. During fiscal 2006, we began to manage operations at the Foxwoods Resort Casino in Ledyard, Connecticut by managing a restaurant, *The Fifth Street Cafe*, in its newly expanded poker room in March 2006 and a fast-casual restaurant, *Lucky Seven*, in the Bingo Hall in May 2006. Sales from these operations totaled $2,389,000 during the 2006 fiscal year.

Interest expense was $8,000 in fiscal 2006, $25,000 in fiscal 2005 and $190,000 in fiscal 2004. The significant decreases in interest expense during these periods was due to lower outstanding borrowings on our credit facility and the benefit from rate decreases in the prime-borrowing rate. As of

September 30, 2006, we had no borrowings on its credit facility. Interest income was $90,000 in fiscal 2006, $101,000 in fiscal 2005 and $138,000 in fiscal 2004.

Other income, which generally consists of purchasing service fees and other income at various restaurants, was $713,000, $672,000 and $594,000 for fiscal 2006, 2005 and 2004, respectively.

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 we own or manage 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, our overall effective tax rate has varied depending on the level of losses incurred at individual subsidiaries. During fiscal 2002 we abandoned our restaurant and food court operations at the Desert Passage, the retail complex at the Aladdin Resort & Casino in Las Vegas. In fiscal 2002, we were 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, we 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.

Our overall effective tax rate in the future will be affected by factors such as the level of losses incurred at our 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 we operate 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, we have merged certain profitable subsidiaries with certain loss subsidiaries.

The Revenue Reconciliation Act of 1993 provides tax credits to us for FICA taxes paid on tip income of restaurant service personnel. The net benefit to us was $733,000 in fiscal 2006, $779,000 in fiscal 2005 and $591,000 in fiscal 2004.

Liquidity and Capital Resources

Our primary source of capital has been cash provided by operations and funds available from our main bank, Bank Leumi USA. We have, from time to time, also utilized equipment financing in connection with the construction of a restaurant and seller financing in connection with the acquisition of a restaurant. We utilize capital primarily to fund the cost of developing and opening new restaurants, acquiring existing restaurants owned by others and remodeling existing restaurants we own.

The net cash used in investing activities in fiscal 2006 of $4,934,000 was primarily used for the replacement of fixed assets at existing restaurants, the finalization of the construction of a restaurant and bar in Atlantic City, New Jersey and the initiation of construction of a to be named Mexican restaurant at the to be developed Planet Hollywood Resort and Casino (formerly known as the Aladdin Resort and Casino) in Las Vegas, Nevada. The net cash used in investing activities in fiscal 2005 of $4,236,000 was primarily used for the replacement of fixed assets at existing restaurants and the initiation of 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 used for the replacement of fixed assets at existing restaurants.

The net cash used in financing activities in fiscal 2006 of $3,628,000 and fiscal 2005 of $4,397,000 was principally used for the payment of dividends. The net cash used in financing activities in fiscal 2004 of $5,106,000 was principally due to repayments of long-term debt on our main credit facility in excess of borrowings on such facility.

We had a working capital surplus of $8,398,000 at September 30, 2006 as compared to a working capital surplus of $3,399,000 at October 1, 2005.

Our Revolving Credit and Term Loan Facility (the "Facility") with our 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 our existing restaurants, matured on March 12, 2005. We do not currently plan to enter into another credit facility and expect required cash to be provided by operations.

We 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 our food and beverage facilities in a hotel and casino in Las Vegas, Nevada. The lease bore interest at 8.65% per annum and was payable in 48 equal monthly installments of $32,000 until maturity in November 2004 at which time we 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, we chose to extend the lease for an additional 12 months.

We 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, we recorded the entire amount payable under the lease as a liability of $1,600,000 based on the anticipated abandonment of the Aladdin operations. In 2002, the operations at the Aladdin were abandoned and at September 30, 2006 the lease was fully paid.

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 and on January 12, April 12, July 12, October 10 and December 20, 2006. In addition, we declared a special cash dividend in the amount of $3.00 per share on December 20, 2006. Prior to this, we had not paid any cash dividends since our inception. We intend to continue to pay such quarterly cash dividend for the foreseeable future, however, the payment of future dividends is at the discretion of our 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	$58,086	$7,187	$12,525	$11,677	$26,697
Total Contractual Cash Obligations	$58,086	$7,187	$12,525	$11,677	$26,697

	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	$466	$—	$466	$—	$—
Total Commercial Commitments	$466	$—	$466	$—	$—

Restaurant Expansion

We opened a *Gallagher's Steakhouse* restaurant the Resorts Atlantic City Hotel and Casino in Atlantic City, New Jersey in December 2005.

During the fiscal year ended September 30, 2006, we established operations at the Foxwoods Resort Casino in Ledyard, Connecticut by opening a restaurant, *The Fifth Street Cafe*, in its newly

expanded poker room in March 2006 and a fast-casual restaurant, *Lucky Seven*, in the Bingo Hall in May 2006. All pre-opening expenses at Foxwoods were borne by outside investors who invested in a limited liability company established to develop, construct, operate and manage these facilities. We are the managing member of this limited liability company and, through this limited liability company, we lease and manage the operations of each of these facilities in exchange for a monthly management fee equal to five-percent of the gross receipts of these facilities and fifty-percent of the cash flow. Neither we nor any of our subsidiaries contributed any capital to this limited liability company. None of the obligations of this limited liability company are guaranteed by us and investors in this limited liability company have no recourse against us or any of our assets.

In addition, in September 2006, we entered into an agreement to lease a to be named Mexican restaurant at the to be developed Planet Hollywood Resort and Casino (formerly known as the Aladdin Resort and Casino) in Las Vegas, Nevada, and entered into an agreement to purchase the restaurant known as the *Durgin Park Restaurant and the Black Horse Tavern* in Boston, Massachusetts. The obligation to pay rent for the to be named Mexican restaurant is not effective until the restaurant opens for business. We anticipate this restaurant to open during our third quarter of the 2007 fiscal year. The agreement to purchase the *Durgin Park* facility provides that we cannot take possession of the restaurant until we obtain a liquor license for the facility. We are currently in the process of obtaining such liquor license.

Finally, in December 2006, we expanded our operations at the Foxwoods Resort Casino by opening *The Grill at Two Trees* in the Two Trees Inn, a facility owned by the Mashantucket Pequot Tribal Nation and a part of the Foxwoods Resort Casino, in Ledyard, Connecticut.

The opening of a new restaurant is invariably accompanied by substantial pre-opening expenses and early operating losses associated with the training of personnel, excess kitchen costs, costs of supervision and other expenses during the pre-opening period and during a post-opening “shake out” period until operations can be considered to be functioning normally. The amount of such pre-opening expenses and early operating losses can generally be expected to depend upon the size and complexity of the facility being opened. We incurred $15,000 in pre-opening expenses in fiscal 2006.

Our restaurants generally do not achieve substantial increases from year to year in revenue, which we consider to be typical of the restaurant industry. To achieve significant increases in revenue or to replace revenue of restaurants that lose customer favor or which close because of lease expirations or other reasons, we would have to open additional restaurant facilities or expand existing restaurants. There can be no assurance that a restaurant will be successful after it is opened, particularly since in many instances we do not operate our new restaurants under a trade name currently used by us, thereby requiring new restaurants to establish their own identity.

Apart from these agreements, we are not currently committed to any projects. We may take advantage of opportunities we consider to be favorable, when they occur, depending upon the availability of financing and other factors.

Recent Restaurant Dispositions and Charges

We entered into a sale and leaseback agreement with GE Capital in November 2000 to refinance the purchase of various restaurant equipment at our food and beverage facilities at Desert Passage, the retail complex at the Aladdin Resort & Casino in Las Vegas, Nevada. In 2002, the operations at the Aladdin were abandoned. The lease matured in November 2005 and, in connection therewith, we made an unprovided for lump sum payment of $142,000 due under this lease. This lump sum payment is included in discontinued operations in fiscal 2006.

In fiscal 2003, we determined that our 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 our long-lived fixed assets at Lutece, we determined that impairment had occurred. To estimate the fair value of such long-lived fixed assets, for determining the impairment amount, we used the expected present value of the future cash flows. We 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, we determined that there was no value to the long-

lived fixed assets. We had an investment of $667,000 in leasehold improvements, furniture fixtures and equipment. We 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, we closed Lutece during the second quarter of 2004. We recorded a net operating loss of $27,000 during the fiscal year ended September 30, 2006 which is included in losses from discontinued operations. In fiscal 2004, we 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, we 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. We recorded a gain on the sale of approximately $225,000 during the first quarter of fiscal 2004.

Our restaurant, Ernie's, located on the upper west side of Manhattan opened in 1982. As a result of a steady decline in sales, we 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 we required. As a result, we sold this restaurant on January 1, 2004 and realized a gain on the sale of this restaurant of approximately $214,000. Operating income of $5,000 was included in losses from discontinued operations for the fiscal year ended September 30, 2006.

Our restaurant Jack Rose located on the west side of Manhattan had experienced weak sales for several years. In addition, this restaurant did not fit our desired profile of being in a landmark destination location. As a result, we sold this restaurant on February 23, 2004. We realized a loss on the sale of this restaurant of $137,000 which was recorded during the second quarter of fiscal 2004. Operating losses of $3,000 were included in losses from discontinued operations for the fiscal year ended September 30, 2006.

Our restaurant, America, located in New York City had experienced declining sales for several years. In March 2004, we entered into a new lease for this restaurant at a significantly increased rent. We 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, we signed a definitive agreement for the sale of this restaurant which closed on March 15, 2005. We realized a pre-tax gain of $644,000 on the sale of this restaurant. Operating losses of $12,000 were included in losses from discontinued operations for the fiscal year ended September 30, 2006.

Our bar/nightclub facility Venus, located at the Venetian Casino Resort, had experienced a steady decline in sales and we felt that a new concept was needed at this location. During the first quarter of 2005, this bar/nightclub facility was closed and re-opened as "Vivid" on February 4, 2005. Total conversion costs were approximately $400,000. Sales at the new bar/nightclub facility failed to reach the level sufficient to achieve the results we required and we have identified a buyer for this facility. As of December 31, 2005, we classified the assets and liabilities of this bar/nightclub facility as "held for sale" in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") based on the fact that the facility has met the criteria under SFAS No. 144. Based on the initial offers made on this facility, we do not anticipate a loss on the sale. Operating losses of $486,000 are included in losses from discontinued operations for the fiscal year ended September 30, 2006.

Effective August 22, 2004, our lease for The Saloon at the Neonopolis Center at Fremont Street was converted into a management agreement whereby we received a management fee of $7,000 per month regardless of the results of operations of this restaurant. In June 2006, the owner of the Neonopolis Center at Fremont Street sold the building to a new entity who, on June 25, 2006, exercised its option to terminate the management agreement upon thirty days written notice to us.

On July 6, 2006, the landlord for the Vico's Burrito's fast food facility at the Venetian Casino Resort, General Growth Properties, notified us that the landlord was exercising an option granted to it pursuant to the lease for the facility to terminate the lease in exchange for the landlord providing us with the unamortized portion of the non-removable improvements located in the facility. On August 10, 2006, we and our landlord for this facility entered into a letter agreement pursuant to which the landlord agreed to pay us $200,000 for the unamortized portion of the non-removable improvements

located in the facility. We realized a loss of $70,000 on the closure of this restaurant which is included in discontinued operations. Operating income of $35,000 is included in discontinued operations for the fiscal year ended September 30, 2006.

As a result of the above mentioned sales, we allocated $75,000 of goodwill to these restaurants and reduced goodwill by this amount in fiscal 2005. No allocation was required during fiscal 2006.

Effective December 1, 2006, our subsidiaries that lease each of Lutece, Tsunami and our Vivid location at The Venetian Resort Hotel Casino in Las Vegas, Nevada, have entered into an agreement to sell Lutece, Tsunami and a portion of the Vivid location used by Lutece as a prep kitchen to Venetian Casino Resort, LLC for an aggregate of $14,000,000. Our Lutece location closed on December 3, 2006 and it is contemplated that our Tsunami location will close at the end of the calendar year. We do not anticipate a loss on the sale of these restaurants.

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. Our significant accounting policies are more fully described in Note 1 to our consolidated financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our 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 us to make estimates and assumptions of future events. In the process of preparing its consolidated financial statements, we estimate the appropriate carrying value of certain assets and liabilities, which are not readily apparent from other sources. The primary estimates underlying our 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 and share-based compensation, 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.

Long-Lived Assets

We annually assess any impairment in value of long-lived assets to be held and used. We evaluate 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 we then reduce 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 our projections with a resulting adjustment to income in such period.

Leases

Various of our subsidiaries are obligated under various lease agreements for certain restaurants. We recognize 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 we 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. We record 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. Our judgments 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

We provide 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 us, 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 (we 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, we obtain appraisals from independent valuation firms. In addition to the use of independent valuation firms, we perform internal valuation analyses and consider 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 2006, 2005 and 2004.

Share-Based Compensation

Effective October 2, 2005 the Company adopted Statement of Financial Accounting Standards No. 123R, *"Share-Based Payment"* ("SFAS No. 123R"), and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to October 2, 2005, the Company applied Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related interpretations in accounting for its stock option plans. Accordingly, prior to October 2, 2005, no compensation expense has been recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

Upon adoption of SFAS 123R, the Company elected to value employee stock options using the Black-Scholes option valuation method that uses assumptions that relate to the expected volatility of the Company's common stock, the expected dividend yield of our stock, the expected life of the options and the risk free interest rate. The assumptions used for the options granted on December 21, 2004, which were unvested at the time of the adoption of SFAS 123R, included a risk free interest rate of 3.37%, volatility of 37%, a dividend yield of 3% and an expected life of three years.

The Company adopted SFAS No. 123R using the modified prospective transition method and therefore has not restated prior periods. Under this transition method, compensation cost associated with employee stock options recognized during fiscal 2006 includes amortization related to the remaining unvested portion of stock awards granted prior to October 2, 2005. No options were granted during fiscal year 2006.

Recently Issued Accounting Standards

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

In June 2005 the Emerging Issues Task Force (EITF) issued EITF No. 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership and therefore should consolidate the partnership. This presumption can be overcome if the limited partners have kick-out or substantive participating rights. The Company is required to adopt the provisions of EITF 04-05 during fiscal years beginning after December 15, 2005. The Company is currently evaluating the impact of EITF 04-05 on its consolidated results of operations and financial position.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is required to adopt the provisions of FIN 48 during fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial position.

Quantitative and Qualitative Disclosures About Market Risk

None.

MARKET INFORMATION

Our 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 our Common Stock from September 27, 2003 through September 30, 2005 are as follows:

Calendar 2004	High	Low
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
Fourth Quarter	31.23	26.70
Calendar 2006		
First Quarter	30.50	27.00
Second Quarter	30.50	27.11
Third Quarter	28.57	23.09

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 and on January 12, April 12, July 12, October 10, 2006 and December 20, 2006. In addition, we declared a special cash dividend in the amount of $3.00 per share on December 20, 2006. Prior to this, we had not paid any cash dividends since our inception. We intend to continue to pay such quarterly cash dividend for the foreseeable future, however, the payment of future dividends is at the discretion of our Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

On August 22, 2006, our Board of Directors authorized a stock repurchase program under which up to four million dollars of our common stock may be acquired in the open market over the twelve months following such authorization at our discretion.

The shares may be purchased from time to time at prevailing market prices through open market or unsolicited negotiated transactions, depending on market conditions. Under the program, the purchases are to be funded from available working capital, and the repurchased shares will be held in treasury or used for ongoing stock issuances. At September 30, 2006, no shares had been purchased by us under the program. There is no guarantee as to the exact number of shares which we will repurchase, and we may discontinue the program at any time.

As of December 14, 2006, there were 40 holders of record of our Common Stock, $.01 par value. This does not include the number of persons whose stock is in nominee or “street name” accounts through brokers.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 September 30, 2006 and October 1, 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2006. 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 September 30, 2006 and October 1, 2005, and their consolidated results of operations and cash flows for each of the three years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal year 2006.

/s/ J.H. Cohn LLP

Jericho, New York
December 22, 2006

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2006	October 1, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,671	$ 5,723
Accounts receivable	2,587	2,370
Related party receivables	1,446	451
Employee receivables	394	294
Current portion of long-term receivables	131	299
Inventories	1,675	1,615
Prepaid expenses and other current assets	700	1,417
Assets held for sale	1,657	—
Total current assets	16,261	12,169
LONG-TERM RECEIVABLES	1,025	1,275
FIXED ASSETS—At cost:		
Leasehold improvements	34,807	31,252
Furniture, fixtures and equipment	28,408	28,107
Construction in progress	159	1,782
	63,374	61,141
Less accumulated depreciation and amortization	39,230	37,096
FIXED ASSETS—Net	24,144	24,045
INTANGIBLE ASSETS—Net	100	198
GOODWILL	3,440	3,440
DEFERRED INCOME TAXES	6,305	5,579
OTHER ASSETS	845	729
TOTAL	$52,120	$47,435
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable—trade	$ 2,193	$ 2,740
Accrued expenses and other current liabilities	4,218	4,756
Accrued income taxes	1,452	1,004
Defered income taxes	—	270
Total current liabilities	7,863	8,770
OPERATING LEASE DEFERRED CREDIT	4,203	878
OTHER LIABILITES	301	374
TOTAL LIABILITIES	12,367	10,022
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, par value $.01 per share—authorized, 10,000 shares; issued 5,632 and 5,533 at September 30, 2006 and October 1, 2005, respectively	57	56
Additional paid-in capital	20,403	18,437
Retained earnings	27,845	27,472
	48,305	45,965
Less stock option receivable	(166)	(166)
Less treasury stock of 2,070 shares	(8,386)	(8,386)
Total shareholders' equity	39,753	37,413
TOTAL	$52,120	$47,435

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
REVENUES:			
Food and beverage sales	$113,546	$111,411	$111,529
Other income	2,423	1,826	742
Total revenues	115,969	113,237	112,271
COST AND EXPENSES:			
Food and beverage cost of sales	29,376	28,591	28,985
Payroll expenses	37,418	35,550	35,363
Occupancy expenses	16,683	16,095	15,458
Other operating costs and expenses	14,224	13,469	13,468
General and administrative expenses	7,231	7,318	6,499
Depreciation and amortization	3,321	3,104	3,051
Total cost and expenses	108,253	104,127	102,824
OPERATING INCOME	7,716	9,110	9,447
OTHER (INCOME) EXPENSE:			
Interest expense	8	25	190
Interest income	(90)	(101)	(138)
Other income	(713)	(672)	(594)
OTHER INCOME—NET	(795)	(748)	(542)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,511	9,858	9,989
PROVISION FOR INCOME TAXES	2,824	3,048	2,757
INCOME FROM CONTINUING OPERATIONS	5,687	6,810	7,232
DISCONTINUED OPERATIONS:			
LOSS FROM OPERATIONS OF DISCONTINUED RESTAURANTS (Includes net losses on disposal of $70 and $168 for the fiscal years ended 2006 and 2004, respectively, and a net gain on disposal of $644 for the fiscal year ended 2005)	(699)	(334)	(794)
BENEFIT FOR INCOME TAXES	(232)	(103)	(219)
LOSS FROM DISCONTINUED OPERATIONS	(467)	(231)	(575)
NET INCOME	$ 5,220	$ 6,579	$ 6,657
PER SHARE INFORMATION—BASIC AND DILUTED			
Continuing operations basic	$ 1.64	$ 1.98	$ 2.19
Discontinued operations basic	$ (0.14)	$ (0.06)	$ (0.18)
NET BASIC	$ 1.50	$ 1.92	$ 2.01
Continuing operations diluted	$ 1.60	$ 1.92	$ 2.10
Discontinued operations diluted	$ (0.13)	$ (0.07)	$ (0.17)
NET DILUTED	$ 1.47	$ 1.85	$ 1.93
WEIGHTED AVERAGE NUMBER OF SHARES—Basic	3,472	3,436	3,305
WEIGHTED AVERAGE NUMBER OF SHARES—Diluted	3,548	3,555	3,444

See notes to consolidated financial statements.

ARK RESTAURANT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 5,220	$ 6,579	$ 6,657
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Deferred income taxes	(401)	187	(144)
Tax benefit on exercise of stock options	(595)	—	—
Stock-based compensation	748	—	—
Depreciation and amortization	3,778	3,694	3,591
Operating lease deferred credit	23	(21)	53
Changes in operating assets and liabilities			
Accounts receivable	(217)	(826)	113
Related party receivables	(995)	176	(627)
Employee receivables	(100)	36	(75)
Inventories	(60)	116	133
Prepaid expenses and other current assets	1,019	198	(1,045)
Other assets	(116)	43	208
Accounts payable—trade	(547)	510	(1,213)
Accrued income taxes	448	(583)	1,357
Accrued expenses and other current liabilities	(538)	(25)	(805)
Cash received from landlord	3,000	—	—
Net cash provided by continuing operating activities	10,667	10,084	8,223
Net cash provided by (used in) discontinued operating activities	(157)	(163)	2,168
Net cash provided by operating activities	10,510	9,921	10,391
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets	(5,352)	(4,252)	(1,529)
Payments received on notes receivable	418	416	193
Net cash used in continuing investing activities	(4,934)	(3,836)	(1,336)
Net cash used in discontinued investing activities	—	(400)	—
Net cash used in investing activities	(4,934)	(4,236)	(1,336)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payment on long-term debt	—	(251)	(7,328)
Dividends paid	(4,847)	(4,801)	—
Exercise of stock options	624	457	1,966
Tax benefit on exercise of stock options	595	—	—
Payment received under stock option receivable	—	198	291
Purchase of treasury stock	—	—	(35)
Net cash used in continuing financing activities	(3,628)	(4,397)	(5,106)
Net cash used in discontinued financing activities	—	—	—
Net cash used in financing activities	(3,628)	(4,397)	(5,106)
NET INCREASE IN CASH	1,948	1,288	3,949
CASH AND CASH EQUIVALENTS, Beginning of the year	5,723	4,435	486
CASH AND CASH EQUIVALENTS, End of year	$ 7,671	$ 5,723	$ 4,435
SUPPLEMENTAL INFORMATION:			
Cash paid during year for:			
Interest	$ 8	$ 25	$ 264
Income taxes	$ 2,136	$ 3,341	$ 1,455

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2006, OCTOBER 1, 2005 AND OCTOBER 2, 2004

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Stock Option Receivable	Total Shareholders' Equity
	Shares	Amount					
				(In thousands)			
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 stock 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 stock 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
Exercise of stock options	99	1	623	—	—	—	624
Tax benefit on exercise of stock options	—	—	595	—	—	—	595
Stock-based compensation	—	—	748	—	—	—	748
Payment of dividends—$1.40 per share	—	—	—	(4,847)	—	—	(4,847)
Net income	—	—	—	5,220	—	—	5,220
BALANCE—September 30, 2006	5,632	$57	$20,403	$27,845	$(8,386)	$(166)	$39,753

1. Business and Summary of Significant Accounting Policies

Ark Restaurants Corp. and subsidiaries (the "Company") owns and/or operates 23 restaurants and bars, 25 fast food concepts, catering operations and wholesale and retail bakeries. Seven restaurants are located in New York City, eight in Las Vegas, Nevada, four in Washington, D.C, two are located in Atlantic City, New Jersey, and two are located at the Foxwoods Resort Casino in Ledyard, Connecticut. 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 three food court concepts and one restaurant is within the Forum Shops at Caesar's Shopping Center. The Company 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. The Company also manages two fast food restaurants at the Foxwoods Resort Casino in Ledyard, Connecticut.

Accounting Period—The Company's fiscal year ends on the Saturday nearest September 30. The fiscal year ended September 30, 2006 and October 1, 2005 included 52 weeks. The fiscal year ended October 2, 2004 included 53 weeks.

Significant Estimates—In the process of preparing its consolidated financial statements, the Company estimates the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. The primary estimates underlying the Company's financial statements include allowances for potential bad debts on long-term receivables, the useful lives and recoverability of its assets, such as property and intangibles, fair values of financial instruments and share-based compensation, the realizable value of its tax assets and other matters.

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.

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

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

The Company maintains the majority of its cash and cash equivalents with high quality financial institutions. Deposits held with banks exceed insurance limits. These deposits may be redeemed upon demand and therefore bear minimal risk.

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.

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.

Revenue Recognition—The Company-owned restaurant sales are composed almost entirely of food and beverage sales. The Company records revenue at the time of the purchase of products by customers.

Management fees, which are included in Revenues–Other Income, are related to the Company's managed restaurants and are based on either gross restaurant sales or cash flow. The company recognizes management fee income in the period sales are made or cash flow is generated.

The Company offers customers the opportunity to purchase gift certificates. At the time of purchase by the customer, the Company records a gift certificate liability for the face value of the certificate purchased. The Company recognizes the revenue and reduces the gift certificate liability

when the certificate is redeemed. The Company does not reduce its recorded liability for potential non-use of purchased gift cards.

Fixed Assets—Leasehold improvements and furniture, fixtures and equipment are stated at cost. Depreciation of furniture, fixtures and equipment 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 September 30, 2006, October 1, 2005 and October 2, 2004, no impairment charges were deemed necessary.

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 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, the Company cease amortization. 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 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, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows (including timing), a 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 2006, 2005 and 2004.

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 9 to 20 years.

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

Amortization expense for intangible assets not including goodwill was $29,000, $28,000 and $27,000 for the years ended September 30, 2006, October 1, 2005 and October 2, 2004, 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.

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 deferred credits that reverse over the lease term.

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).

Share-based Compensation—Effective October 2, 2005 the Company adopted Statement of Financial Accounting Standards No. 123R, *"Share-Based Payment"* ("SFAS 123R"), and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to October 2, 2005, the Company applied Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related interpretations in accounting for its stock option plans. Accordingly, prior to October 2, 2005, no compensation expense has been recognized for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

Upon adoption of SFAS 123R, the Company elected to value employee stock options using the Black-Scholes option valuation method that uses assumptions that relate to the expected volatility of the Company's common stock, the expected dividend yield of our stock, the expected life of the options and the risk free interest rate. The assumptions used for the options granted on December 21, 2004, which were unvested at the time of the adoption of SFAS 123R, included a risk free interest rate of 3.37%, volatility of 37%, a dividend yield of 3% and an expected life of three years.

The Company adopted SFAS 123R using the modified prospective transition method and therefore has not restated prior periods. Under this transition method, compensation cost associated with employee stock options recognized during fiscal 2006 includes amortization related to the remaining unvested portion of stock awards granted prior to October 2, 2005. No options were granted during fiscal year 2006.

Prior to the adoption of SFAS 123R, the Company presented tax benefits resulting from share-based compensation as operating cash flows in the consolidated statements of cash flows. SFAS 123R requires that cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements be classified as an operating cash outflow and a financing cash inflow.

The compensation cost charged to operations for the fiscal year ended September 30, 2006 for share-based compensation programs was $748,000, before a tax benefit of $256,000. The compensation cost recognized is classified as payroll expense in the consolidated statement of operations.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FAS 123R-3"). The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to FAS 123R-3. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

A summary of stock option activity is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Contractual Term (Yrs.)	Aggregate Intrinsic Value
Outstanding as October 1, 2005	301,000	$21.32	$5.97	8.23	
Granted	—	—	—	—	
Exercised	(99,000)	6.30	2.05	0.21	
Forfeited/Cancelled	—	—	—	—	
Outstanding at September 30, 2006	202,000	$28.68	$8.06	7.91	$167,000
Exercisable at September 30, 2006	105,000	$27.82	$7.99	7.62	$167,000

Had the Company accounted for its share-based awards under the fair value method for the fiscal years ended October 1, 2005 and October 2, 2004 the impact on its financial statements would have been as follows:

	Years Ended	
	October 1, 2005	October 2, 2004
	(In thousands, except per share amounts)	
Net income as reported	$6,579	$6,657
Deduct share-based compensation expense computed under the fair value method	494	85
Net income—pro forma	$6,085	$6,572
Net income per share as reported—basic	$ 1.92	$ 2.01
Net income per share as reported—diluted	$ 1.85	$ 1.93
Net income per share pro forma—basic	$ 1.77	$ 1.99
Net income per share pro forma—diluted	$ 1.71	$ 1.91

As of September 30, 2006, there was approximately $163,000 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a period of approximately one year.

The Company, generally, issues new shares upon the exercise of employee stock options.

Recently Issued Accounting Pronouncements—In June 2005, the Emerging Issues Task Force ("EITF") issued EITF No. 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership and therefore should consolidate the partnership. This presumption can be overcome if the limited partners have kick-out or substantive participating rights. The Company is required to adopt the provisions of EITF 04-05 during fiscal years beginning after December 15, 2005. The Company is currently evaluating the impact of EITF 04-05 on its consolidated results of operations and financial position.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is required to adopt the provisions of FIN 48 during fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial position.

2. Recent Restaurant Dispositions

In November 2000 the Company entered into a sale and leaseback agreement to refinance the purchase of various restaurant equipment at its food and beverage facilities at Desert Passage, the retail complex at the Aladdin Resort & Casino in Las Vegas, Nevada. In 2002, the operations at the Aladdin were abandoned. During fiscal 2006 the Company made an unprovided for lump sum payment of $142,000 due under this lease which is included in discontinued operations for fiscal year 2005.

In fiscal 2003, the Company determined that the 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 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 of $667,000 comprised of 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 $27,000, $60,000 and $804,000 during the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively, which are 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 which, along with losses from operations of $145,000, are included in discontinued operations. There were no additional losses incurred related to this restaurant after 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 and, accordingly, the restaurant was closed on 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 of approximately $214,000. Net operating income of $5,000 and net operating losses of $12,000 and $230,000 are included in discontinued operations for the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively.

The Company's restaurant Jack Rose located on the west side of Manhattan had 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 $3,000, $19,000 and $148,000 are included in discontinued operations for the fiscal year ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively.

The Company's restaurant, America, located in New York City had experienced declining sales for several years. In March 2004, the Company entered into a new lease for this restaurant at a significantly increased rent. This lease was entered into 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. An operating loss of $12,000 and operating income of $47,000 are included in discontinued operations for the fiscal years ended September 30, 2006 and October 1, 2005, respectively.

The Company's bar/nightclub facility Venus, located at the Venetian Casino Resort, experienced a steady decline in sales and the Company felt that a new concept was needed at this location. During the first quarter of 2005, this bar/nightclub facility was closed for re-concepting and re-opened as "Vivid" on February 4, 2005. Total conversion costs were approximately $400,000. Sales at the new bar/nightclub facility failed to reach the level sufficient to achieve the results the Company required. As of December 31, 2005, the Company classified the assets and liabilities of this facility as "held for sale" in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144") based on the fact that the facility has met the criteria for such under SFAS 144. Based on the initial offers made on this facility, the Company does not anticipate a loss on the sale. Net operating losses of $486,000 are included in loss from discontinued operations for the fiscal year ended September 30, 2006.

Effective August 22, 2004, the Company's lease for The Saloon at the Neonopolis Center at Fremont Street was converted into a management agreement whereby the Company received a management fee of $7,000 per month regardless of the results of operations of this restaurant. In June 2006, the owner of the Neonopolis Center at Fremont Street sold the building to a new entity who, on

June 25, 2006, exercised its option to terminate the management agreement upon thirty days written notice to the Company.

On July 6, 2006, the landlord for the Vico's Burrito's fast food facility at the Venetian Casino Resort notified the Company that they were exercising their option to terminate the lease in exchange for the landlord providing the Company with the unamortized portion of the non-removable improvements located in the facility. On August 10, 2006, the Company entered into a letter agreement pursuant to which the landlord agreed to pay $200,000 for the unamortized portion of the non-removable improvements located in the facility. The Company realized a loss on the closure of this restaurant of $70,000 which is included in discontinued operations. Operating income of $35,000 is included in discontinued operations for the fiscal year ended September 30, 2006.

In accordance with SFAS 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 $1,159,000, $4,010,000 and $9,821,000 in fiscal 2006, 2005 and 2004, 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. No allocation was required during fiscal 2006.

3. Long-Term Receivables

Long-term receivables consist of the following:

	September 30, 2006	October 1, 2005
	(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)	$ 23	$ 111
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)	558	788
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 (c)	575	675
	1,156	1,574
Less current portion	131	299
	$1,025	$1,275

(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, is being paid in 104 monthly installments of principal and interest totaling $15,000 commencing May 2000 and ending December 2008. At December 2008, the then outstanding balance of $519,000 matures. In connection with this note, the buyer has prepaid $240,000 as of September 30, 2006. Such prepayment has been offset against future maturities.

(c) In March 2005, the Company sold a 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 of $644,000 during the year ended October 1, 2005 in connection with this sale.

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:

	September 30, 2006	October 1, 2005
	(In thousands)	
Purchased leasehold rights (a)	$490	$ 611
Noncompete agreements and other	483	600
	973	1,211
Less accumulated amortization	873	1,013
Total intangible assets	$100	$ 198

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

5. Other Assets

Other assets consist of the following:

	September 30, 2006	October 1, 2005
	(In thousands)	
Deposits and other	$465	$350
Landlord receivable (a)	380	379
	$845	$729

(a) This balance represents certain costs paid by the Company on behalf of a landlord, which 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:

	September 30, 2006	October 1, 2005
	(In thousands)	
Sales tax payable	$ 696	$ 763
Accrued wages and payroll related costs	1,094	1,756
Customer advance deposits	1,120	986
Accrued and other liabilities	1,308	1,134
Abandonment accrual (a)	—	117
	$4,218	$4,756

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

7. 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 September 30, 2006, future minimum lease payments under noncancelable leases are as follows:

Fiscal Year	Amount (In thousands)
2007	$7,187.00
2008	6,487.00
2009	6,038.00
2010	5,797.00
2011	5,880
Thereafter	26,697
Total minimum payments	$ 58,086

In connection with certain of the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of $466,000 as security deposits under such leases.

Rent expense was $12,299,000, $11,978,000 and $12,104,000 during the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively. Contingent rentals, included in rent expense, were $4,392,000, $4,160,000 and $4,153,000 for the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively.

In August 2004, the Company entered into a lease agreement to operate a Gallagher's Steakhouse and separate bar, Luna Lounge, at the Resorts International Hotel and Casino in Atlantic City, New Jersey. In connection with this lease the landlord contributed $3,000,000 towards the construction of these facilities. The Company received the $3,000,000 during the fiscal year ended September 30, 2006. As a result of cost overruns the landlord provided the Company with a rent credit which totaled $500,000. These amounts are included in the Operating Lease Deferred Credit Liability as of September 30, 2006.

In July 2006, the Company entered into an agreement to lease The Grill at Two Trees in the Two Trees Inn, a facility owned by the Mashantucket Pequot Tribal Nation and a part of the Foxwoods Resort Casino, in Ledyard, Connecticut. This restaurant opened in December 2006.

In September 2006, the Company entered into an agreement to lease a to be named Mexican restaurant at the to be developed Planet Hollywood Resort and Casino (formerly known as the Aladdin Resort and Casino) in Las Vegas, Nevada. Lease payments do not commence until construction of this restaurant is completed. This restaurant is expected to open during the second fiscal quarter of 2007.

The future minimum lease payments from the above noted leases 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.

8. Common Stock Repurchase Plan

In August 2006, the Company authorized the repurchase of up to $4,000,000 of the Company's outstanding common stock which may be acquired in open market purchases over the twelve months following the date of the authorization. For the fiscal year ended September 30, 2006, there were no repurchases of common stock.

9. 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 as of the end of each respective fiscal year is as follows:

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	301,000	$ 6.30	178,000	$ 7.91	392,500	$ 7.91
Options:						
Granted	—		194,000	29.60	—	
Exercised	(99,000)	6.30	(71,000)	6.47	(212,500)	9.18
Canceled or expired	—		—		(2,000)	10.00
Outstanding, end of year (a)	202,000	28.68	301,000	21.32	178,000	7.91
Exercise price, outstanding options	$6.30–29.60		$ 6.30–29.60		$ 6.30–7.50	
Weighted average years	7.91		6.38 Years		2.14 Years	
Shares available for future grant (b).	256,000		256,000		450,000	
Options exercisable (a)	105,000	27.82	107,000	6.30	60,500	6.30
Fair value of options granted	—		194,000.00	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.

10. Management Fee Income

As of September 30, 2006, the Company provides management services to two fast food courts and three restaurants it does not own. In accordance with the contractual arrangements, the Company earns management fees based on gross sales or cash flow as defined by the agreements. Management fee income relating to these services was $1,980,000, $1,568,000 and $386,000 for the years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively. Such amount for the year ended September 30, 2006 included $932,000 for management fees and $1,048,000 for profit distributions. Such amount for the year ended October 1, 2005 included $851,000 for management fees and $717,000 for profit distributions. For the year ended October 2, 2004 the entire amount of $386,000 was for management fees.

Receivables from managed restaurants, classified as Related Party receivable in the accompanying Consolidated Balance Sheet, were $1,446,000 and $451,000 at September 30, 2006 and October 1, 2005, respectively. Such amount for the year ended September 30, 2006 included $161,000 for management fees, $250,000 for profit distributions and $1,035,000 for expense advances. Such amount at October 1, 2005 included $133,000 for management fees and $318,000 for expense advances.

Managed restaurants had sales of $16,377,000, $12,105,000 and $9,566,000 during the management periods within the years ended September 30, 2006, October 1, 2005 and October 2, 2004, respectively, which are not included in consolidated net sales of the Company.

11. 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 State and Local 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		
	September 30, 2006	October 1, 2005	October 2, 2004
	(In thousands)		
Current provision:			
Federal	$2,985	$2,189	$2,168
State and local	603	569	514
	3,588	2,758	2,682
Deferred provision (benefit):			
Federal	(967)	413	259
State and local	(29)	(226)	(403)
	(996)	187	(144)
	$2,592	$2,945	$2,538

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

	Years Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
	(In thousands)		
Provision for Federal income taxes (34%)	$2,656	$3,238	$3,126
State and local income taxes net of Federal tax benefit	502	309	334
Tax credits	(484)	(514)	(591)
State and local net operating loss carryforward allowance adjustment	(134)	(125)	(395)
Other	52	37	64
	$2,592	$2,945	$2,538

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

	September 30, 2006	October 1, 2005
	(In thousands)	
Current deferred tax assets (liabilities):		
Inventory	$ —	$ (270)
Total current net deferred tax assets	—	(270)
Long-term deferred tax assets (liabilities):		
Operating loss carryforwards	2,513	2,153
Operating lease deferred credits	1,407	320
Carryforward tax credits	2,574	4,570
Depreciation and amortization	53	(973)
Deferred gains	(416)	(260)
Valuation allowance	(224)	(358)
Deferred compensation	284	—
Pension withdrawal liability	114	127
Total long-term net deferred tax assets	6,305	5,579
Total net deferred tax assets	$6,305	$5,309

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 $224,000 at September 30, 2006 and $358,000 at 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 $134,000 and $125,000 for the years ended September 30, 2006 and October 1, 2005, respectively, based on the merger of certain unprofitable subsidiaries into profitable ones. The Company has state operating loss carryforwards of $19,726,000, which expire in the years 2007 through 2020.

During the fiscal year ended September 30, 2006, 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 related to 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 consolidated financial condition.

12. Other Income

Other income consists of the following:

	Years Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
		(In thousands)	
Purchasing service fees	$ 60	$ 41	$ 61
Other	653	631	533
	$713	$672	$594

13. 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 September 30, 2006, October 1, 2005 and October 2, 2004 follows:

	Net Income (Numerator)	Shares (Denominator)	Per-Share Amount
	(In thousands, except per share amounts)		
Year ended September 30, 2006:			
Basic EPS	$5,220	3,472	$ 1.50
Stock options	—	76	(0.03)
Diluted EPS	$5,220	3,548	$ 1.47
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

For the year ended September 30, 2006, stock options for 194,000 shares were not included in the computation of diluted EPS because to do so would have been antidilutive. For the fiscal years ended October 1, 2005 and October 2, 2004 all outstanding stock options were included in the computation of diluted EPS.

14. Quarterly Information (Unaudited)

The following tables set forth certain unaudited results of operations for each quarter during 2006 and 2005. The unaudited information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments which management considers necessary for a fair presentation of the financial data shown. The operating results for any quarter are not necessarily indicative of the results to be attained for any future period. Basic and diluted earnings (loss) per share are computed independently for each of the periods presented. Accordingly, the sum of the quarterly earnings (loss) per share may not agree to the total for the year (in thousands, except per share data).

	Fiscal Quarters Ended			
	December 31, 2005	April 1, 2006	July 1, 2006	September 30, 2006
	(In thousands except per share amounts)			
2006				
Revenues	$27,247	$25,468	$32,606	$30,648
Income from continuing operations	$ 1,192	$ 14	$ 2,656	$ 1,825
Income (loss) from discontinued operations	(276)	(165)	(168)	142
Net income (loss)	$ 916	$ (151)	$ 2,488	$ 1,967
Per share information—basic and diluted:				
Continuing operations basic	$ 0.34	$ 0.00	$ 0.77	$ 0.53
Discontinued operations basic	(0.08)	(0.04)	(0.05)	0.03
Net basic	$ 0.26	$ (0.04)	$ 0.72	$ 0.56
Continuing operations diluted	$ 0.34	$ 0.00	$ 0.75	$ 0.51
Discontinued operations diluted	(0.08)	(0.04)	(0.05)	0.04
Net diluted	$ 0.26	$ (0.04)	$ 0.70	$ 0.55

	Fiscal Quarters Ended			
	January 1, 2005	April 2, 2005	July 2, 2005	October 1, 2005
	(In thousands except per share amounts)			
2005				
Revenues	$26,516	$23,995	$32,206	$30,520
Income from continuing operations	$ 1,301	$ 291	$ 3,013	$ 2,205
Income (loss) from discontinued operations	(117)	263	(191)	(186)
Net income (loss)	$ 1,184	$ 554	$ 2,822	$ 2,019
Per share information—basic and diluted:				
Continuing operations basic	$ 0.38	$ 0.08	$ 0.87	$ 0.64
Discontinued operations basic	(0.03)	0.08	(0.05)	(0.06)
Net basic	$ 0.35	$ 0.16	$ 0.82	$ 0.58
Continuing operations diluted	$ 0.37	$ 0.08	$ 0.85	$ 0.62
Discontinued operations diluted	(0.03)	0.07	(0.05)	(0.05)
Net diluted	$ 0.34	$ 0.15	$ 0.80	$ 0.57

15. Stock Option Receivables

Stock option receivables include amounts due from officers and directors totaling $166,000 at September 30, 2006 and October 1, 2005. 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 (8.25% at September 30, 2006 and 6.75% at October 1, 2005).

16. Related Party Transactions

Receivables due from officers and directors, excluding stock option receivables, totaled $37,000 at September 30, 2006 and October 1, 2005. Other employee loans totaled $357,000 at September 30, 2006 compared to $257,000 at October1, 2005. Such loans bear interest at the minimum statutory rate (4.96% at September 30, 2006 and 3.83% at October 1, 2005).

17. Subsequent Events

The Company entered into an agreement to purchase the restaurant known as Durgin Park Restaurant and the Black Horse Tavern in Boston, Massachusetts. The agreement to purchase the Durgin Park facility provides that the Company cannot take possession of the restaurant until it obtains a liquor license for the facility.

On October 10, 2006, the Company declared its regular quarterly dividend of $.35 per share on the Company's outstanding common stock payable November 1, 2006 to shareholders of record at the close of business October 20, 2006. On November 1, 2006, the Company paid dividends of $1,246,000.

Effective December 1, 2006, Las Vegas Asia Corp. and Las Vegas Lutece Corp., the wholly-owned subsidiaries of the Company which lease the Company's Tsunami and Lutece locations at The Venetian Resort Hotel Casino in Las Vegas, Nevada, respectively, sold the Lutece and Tsunami locations, and a portion of the Company's Vivid location used by the Lutece location as a prep kitchen, for an aggregate of $14,000,000 to Venetian Casino Resort, LLC.

On December 20, 2006, the Company declared a special dividend of $3.00 per share on the Company's common stock to be paid on February 1, 2007 to shareholders of record at the close of business on January 24, 2007.

* * * * * *

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

EXECUTIVE OFFICE

85 Fifth Avenue
New York, NY 10003
(212) 206-8800

AUDITORS

J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036

TRANSFER AGENT

Continental Stock Transfer
17 Battery Place
New York, NY 10004