

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

ARK RESTAURANTS CORP
Form 10-Q
August 15, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 1, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 0-14030

ARK RESTAURANTS CORP.

(Exact name of registrant as specified in its charter)

New York

13-3156768

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

85 Fifth Avenue, New York, New York

10003

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 206-8800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

As of July 25, 2006 there were 3,462,299 outstanding shares of the registrant's \$0.01 par value common stock.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ARK RESTAURANTS CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars and shares in Thousands)

	July 1, 2006	October 1, 2005
	-----	-----
ASSETS	(unaudited)	(Note 1)
CURRENT ASSETS:		
Cash	\$ 5,889	\$ 5,723
Accounts receivable	4,114	2,821
Employee receivables	330	294
Current portion of long-term receivables	58	299
Inventories	1,769	1,615
Deferred income taxes	628	630
Prepaid expenses and other current assets	514	1,417
Assets held for sale	1,450	-
	-----	-----
Total current assets	14,752	12,799
	-----	-----
LONG-TERM RECEIVABLES	1,204	1,275
	-----	-----
FIXED ASSETS:		
Leasehold improvements	34,925	31,252
Furniture, fixtures and equipment	28,463	28,107
Construction in progress	6	1,782
	-----	-----
	63,394	61,141
	-----	-----
Less accumulated depreciation and amortization	38,907	37,096
	-----	-----
	24,487	24,045
	-----	-----
INTANGIBLE ASSETS, NET	106	198
GOODWILL	3,440	3,440
DEFERRED INCOME TAXES	4,662	4,679
OTHER ASSETS	737	729
	-----	-----
TOTAL	\$ 49,388	\$ 47,165
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 2,257	\$ 2,740
Accrued expenses and other current liabilities	4,277	4,756
Accrued income taxes	1,239	1,004
	-----	-----

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

Total current liabilities	7,773	8,500
OPERATING LEASE DEFERRED CREDIT	3,703	878
OTHER LIABILITIES	319	374
	-----	-----
TOTAL LIABILITIES	11,795	9,752
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, par value \$.01 per share - authorized, 10,000 shares; issued, 5,533 shares	56	56
Additional paid-in capital	18,998	18,437
Retained earnings	27,091	27,472
	-----	-----
	46,145	45,965
Less stock option receivable	(166)	(166)
Less treasury stock of 2,070 shares	(8,386)	(8,386)
	-----	-----
Total shareholders' equity	37,593	37,413
	-----	-----
TOTAL	\$ 49,388	\$ 47,165
	=====	=====

See notes to consolidated condensed financial statements.

- 2 -

ARK RESTAURANTS CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands, Except per share amounts)

	13 Weeks Ended		39 Weeks Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
	-----	-----	-----	-----
TOTAL REVENUES	\$ 32,606	\$ 32,206	\$ 85,321	\$ 82,717
	-----	-----	-----	-----
COST AND EXPENSES:				
Food and beverage cost of sales	8,095	8,065	21,477	21,044
Payroll expenses	9,814	9,325	27,761	26,303
Occupancy expenses	4,365	4,046	12,623	11,764
Other operating costs and expenses	3,800	3,745	10,394	9,719
General and administrative expenses	1,874	1,900	5,435	5,455
Depreciation and amortization	835	749	2,421	2,209
	-----	-----	-----	-----
Total costs and expenses	28,783	27,830	80,111	76,494
	-----	-----	-----	-----

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

OPERATING INCOME	3,823	4,376	5,210	6,223
	-----	-----	-----	-----
OTHER INCOME:				
Interest income	23	5	70	58
Other income	178	137	569	432
	-----	-----	-----	-----
Total other income	201	142	639	490
	-----	-----	-----	-----
Income from continuing operations before income taxes	4,024	4,518	5,849	6,713
Provision for income taxes	1,368	1,505	1,989	2,148
	-----	-----	-----	-----
Income from continuing operations	2,656	3,013	3,860	4,565
	-----	-----	-----	-----
DISCONTINUED OPERATIONS:				
Loss from operations of discontinued restaurants	(255)	(271)	(921)	(6)
Benefit for income taxes	(87)	(80)	(313)	(2)
	-----	-----	-----	-----
Loss from discontinued operations	(168)	(191)	(608)	(4)
	-----	-----	-----	-----
NET INCOME	\$ 2,488	\$ 2,822	\$ 3,252	\$ 4,561
	=====	=====	=====	=====
PER SHARE INFORMATION - BASIC AND DILUTED:				
Continuing operations basic	\$.77	\$.87	\$ 1.11	\$ 1.33
Discontinued operations basic	\$ (.05)	\$ (.05)	\$ (.17)	\$ (.00)
	-----	-----	-----	-----
Basic	\$.72	\$.82	\$.94	\$ 1.33
	=====	=====	=====	=====
Continuing operations diluted	\$.75	\$.85	\$ 1.09	\$ 1.28
Discontinued operations diluted	\$ (.05)	\$ (.05)	\$ (.17)	\$ (.00)
	-----	-----	-----	-----
Diluted	\$.70	\$.80	\$.92	\$ 1.28
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES-BASIC	3,462	3,457	3,462	3,428
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES-DILUTED	3,546	3,546	3,546	3,555
	=====	=====	=====	=====

See notes to consolidated condensed financial statements.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

ARK RESTAURANTS CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in Thousands)

	39 Weeks Ended	
	July 1, 2006	July 2, 2005
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,252	\$ 4,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	19	(33)
Stock-based compensation	561	-
Depreciation and amortization	2,421	2,209
Operating lease deferred credit	(175)	(111)
Changes in operating assets and liabilities:		
Accounts receivable	(1,293)	(848)
Employee receivables	(36)	238
Inventories	(154)	17
Prepaid expenses and other current assets	903	(13)
Other assets	(8)	(436)
Accounts payable - trade	(483)	(810)
Accrued income taxes	235	(758)
Accrued expenses and other current liabilities	(479)	298
Cash received from landlord	3,000	-
	-----	-----
Net cash provided by continuing operating activities	7,763	4,314
Net cash provided by (used in) discontinued operating activities	(342)	527
	-----	-----
Net cash provided by operating activities	7,421	4,841
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed assets	(3,932)	(1,710)
Payments received on long-term receivables	312	239
	-----	-----
Net cash used in continuing investing activities	(3,620)	(1,471)
Net cash used in discontinued investing activities	-	(1,458)
	-----	-----
Net cash used in investing activities	(3,620)	(2,929)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	-	(251)
Dividends paid	(3,635)	(3,591)
Exercise of stock options	-	420
Proceeds from stock option receivables	-	198
	-----	-----
Net cash used in continuing financing activities	(3,635)	(3,224)
Net cash used in discontinued financing activities	-	-
	-----	-----
Net cash used in financing activities	(3,635)	(3,224)
NET INCREASE (DECREASE) IN CASH	166	(1,312)
CASH, Beginning of period	5,723	4,435
	-----	-----
CASH, End of period	\$ 5,889	\$ 3,123
	=====	=====

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ -	\$ 3
	=====	=====
Income taxes	\$ 2,343	\$ 1,920
	=====	=====

See notes to consolidated condensed financial statements.

- 4 -

ARK RESTAURANTS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

July 1, 2006

(Unaudited)

1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The consolidated condensed financial statements have been prepared by Ark Restaurants Corp. (the "Company"), without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at July 1, 2006, results of operations for the 13-week and 39-week periods ended July 1, 2006 and July 2, 2005 and cash flows for the 39-week periods ended July 1, 2006 and July 2, 2005 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended October 1, 2005. The results of operations for interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

2. RECENT RESTAURANT DISPOSITIONS

The Company entered into a sale and leaseback agreement with GE Capital in November 2000 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. The lease matured in November 2005 and, in connection therewith, the Company made an unprovided for lump sum payment of \$142,000 due under this lease. This lump sum payment is included in discontinued operations.

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. The Company entered into this lease with the belief that due to the location and the uniqueness of the space the lease had value. On January 19, 2005, the Company signed a definitive agreement for the sale of this restaurant which closed on March 15, 2005. The Company realized a gain of \$644,000 on the sale of

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

this restaurant. The Company recorded a loss of \$1,000 and income of \$57,000, respectively, during the 13-week and 39-week periods ended July 2, 2005. The gain on sale, income and loss were included in discontinued operations.

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 have failed to reach the level sufficient to achieve the results the Company required and the Company has identified a buyer for this facility. As of December 31, 2005, the Company 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, the Company does not anticipate a loss on the sale. The Company recorded an operating loss of \$276,000 and \$778,000, respectively, during the 13-week and 39-week periods ended July 1, 2006. The Company recorded an operating loss of \$284,000 and \$693,000, respectively, during the 13-week and 39-week periods ended July 2, 2005. These losses are included in discontinued operations.

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, General Growth Properties, notified the Company 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 the Company with the unamortized portion of the non-removable improvements located in the facility. On August 10, 2006, the Company and its landlord for this facility entered into a letter

- 5 -

agreement pursuant to which the landlord agreed to pay the Company \$200,000 for the unamortized portion of the non-removable improvements located in the facility by September 10, 2006. As of July 1, 2006, the Company classified the assets and liabilities of this fast food 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 negotiations with the landlord, the Company does not anticipate a loss on the termination of the lease.

3. RECEIVABLES FROM EMPLOYEES IN RESPECT OF STOCK OPTION EXERCISES

Receivables from employees resulting from stock option exercises includes amounts due from officers and directors totaling \$166,000 at July 1, 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

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

interest at 1/2% above prime (8.25% at July 1, 2006).

4. INCOME (LOSS) PER SHARE OF COMMON STOCK

Net income (loss) per share is computed in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share, and is calculated on the basis of the weighted average number of common shares outstanding during each period plus, for diluted earnings per share, the additional dilutive effect of potential common stock. Potential common stock using the treasury stock method consists of dilutive stock options and warrants.

For the 13-week and 39-week periods ended July 1, 2006, options to purchase 107,000 shares of common stock at a price of \$6.30 were included in diluted earnings per share. Options to purchase 194,000 shares of common stock at a price of \$29.60 were not included in diluted earnings per share as their impact was antidilutive for the 13-week and 39-week periods ended July 1, 2006.

For the 13-week period ended July 2, 2005, options to purchase 112,500 shares of common stock at a price of \$6.30 were included in diluted earnings per share. Options to purchase 194,000 shares of common stock at a price of \$29.60 were not included in diluted earnings per share as their impact was antidilutive. For the 39-week period ended July 2, 2005, options to purchase 306,500 shares of common stock at a price range of \$6.30 to \$29.60 were included in diluted earnings per share.

5. 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, no compensation expense was 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.

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.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

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.

Prior to the adoption of SFAS No. 123R, the Company presented tax benefits resulting from share-based compensation as operating cash flows in the consolidated statements of cash flows. SFAS No. 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. For the first, second and third fiscal quarters of 2006 no excess tax benefits were generated.

The compensation cost charged against income in the third fiscal quarter of 2006 for share-based compensation programs was \$187,000, before a tax benefit of \$64,000. The compensation cost charged for the 39-week period ended July 1, 2006 for share-based compensation programs was \$561,000, before a tax benefit of \$191,000. 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 123R3 "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FAS 123R"). 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. 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 FAS 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	-	-	-	-	
Forfeited/Cancelled	-	-	-	-	
Outstanding at July 1, 2006	301,000	\$ 21.32	\$ 5.97	8.23	\$ 2,341,000
Exercisable at July 1, 2006	204,000	\$ 17.38	\$ 4.94	7.38	\$ 2,341,000

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

Had the Company accounted for its stock-based awards under the fair value method for the 13-week and 39-week periods ended July 2, 2005 the impact to its financial statements would have been as follows:

- 7 -

(in thousands, except per share amounts)		
	13 Weeks ended July 2, 2005	39 Weeks ended July 2, 2005
Net income as reported	\$ 2,822	\$ 4,561
Deduct stock based employee compensation expense computed under the fair value method	\$ (153) -----	\$ (342) -----
Net income - pro forma	\$ 2,669 =====	\$ 4,219 =====
Earnings per share as reported -basic	\$ 0.82	\$ 1.33
Earnings per share as reported - diluted	\$ 0.80	\$ 1.28
Earnings per share pro forma - basic	\$ 0.77	\$ 1.23
Earnings per share pro forma - diluted	\$ 0.75	\$ 1.19

As of July 1, 2006, there was approximately \$350,000 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.

6. DIVIDENDS

A quarterly cash dividend in the amount of \$0.35 per share was declared on October 12, 2004. Subsequent to October 12, 2004, quarterly cash dividends in the amount of \$0.35 per share were declared on January 12, April 12, July 12 and October 11, 2005 and January 12, April 12 and July 12, 2006. Prior to this, the Company had not paid any cash dividends since its inception. The Company intends to continue to pay such quarterly cash dividend for the foreseeable future, however, the payment of future dividends is at the discretion of the Company's Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

7. RELATED PARTY TRANSACTIONS

Receivables due from officers and employees, excluding stock option receivables, totaled \$330,000 at July 1, 2006 and \$294,000 at October 1, 2005. Such loans bear interest at the minimum statutory rate (4.96% at July 1, 2006).

8. LEASE ACCOUNTING

Leasehold improvements funded by landlord incentives are recorded as deferred rent and amortized as reductions to lease expense of the lease term in accordance with Statement of Financial Accounting Standards No. 13, "Accounting

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

for Leases". The Company has received \$3,000,000 during fiscal 2006 in connection with the construction of its two facilities in Atlantic City, New Jersey.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements. Certain of these risks and uncertainties are discussed under the heading "forward looking statements" in the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 2005.

In connection with the sale of one facility and the classification of two facilities as "held for sale", the operations of these restaurants have been presented as discontinued operations for the 13-week and 39-week periods ended July 1, 2006 and the Company has reclassified its statements of operations and cash flow data for the prior periods presented below, in accordance with FAS 144 based on the fact that the Company has met the criteria under FAS 144. These dispositions are discussed below in "Recent Restaurant Dispositions."

- 8 -

Revenues

During the Company's third fiscal quarter of 2006, total revenues of \$32,606,000 increased 1.2% compared to total revenues of \$32,206,000 in the third fiscal quarter of 2005. Revenues for the third fiscal quarter of 2006 were reduced by \$243,000 and revenues for the third fiscal quarter of 2005 were reduced by \$560,000 as a result of the sale of one facility and the classification of four facilities as "held for sale" and their reclassification to discontinued operations. The Company had net income of \$2,488,000 in the third fiscal quarter of 2006 compared to net income of \$2,822,000 in the third fiscal quarter of 2005. The third fiscal quarter of 2006 was negatively affected by unusually hot and/or inclement weather during significant portions of the quarter. The third fiscal quarter of 2006 was further negatively affected by an \$187,000 expense related to the Company's share-based compensation plan.

Same store sales in Las Vegas decreased by \$53,000 or 0.4% in the third fiscal quarter of 2006 compared to the third fiscal quarter of 2005 generally because of less than expected business at the Venetian Casino Resort. Same store sales in New York increased \$240,000 or 2.3% during the third quarter. Same store sales in Washington D.C. decreased by \$644,000 or 10.4% during the third quarter. The decrease in Washington D.C. was principally due to unusually hot and/or inclement weather during significant portions of the quarter in the area.

During the Company's 39-week period ended July 1, 2006, total revenues of \$85,321,000 increased 3.1% compared to total revenues of \$82,717,000 in the 39-week period ended July 2, 2005. Revenues for the 39-week period ended July 1, 2006 were reduced by \$1,058,000 and revenues for the 39-week period ended July 2, 2005 were reduced by \$3,393,000 as a result of the sale of one facility and the classification four facilities as "held for sale" and their reclassification to discontinued operations. The Company had net income of \$3,252,000 in the 39-week period ended July 1, 2006 compared to net income of \$4,561,000 for the 39-week period ended July 2, 2005. Net income was negatively affected during the

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

39-week period ended July 1, 2006 as a result of \$447,000 pre-opening and early operating losses experienced at the Company's Gallagher's Steakhouse and Luna Lounge, both located in Atlantic City, New Jersey. The Company's income has also been negatively affected by \$561,000 of compensation expense booked during fiscal 2006 related to the Company's share-based compensation plan. The 39-week period ended July 2, 2005 was positively affected by a \$644,000 gain realized as a result of the sale of the Company's America restaurant which was located in New York City.

Costs and Expenses

Food and beverage costs for the third quarter of 2006 as a percentage of total revenues were 24.8% compared to 25.0% in the third quarter of 2005. These costs for the 39-weeks ended July 1, 2006 as a percentage of total revenues were 25.2% compared to 25.4% in the 39-week period ended July 2, 2005.

Payroll expenses as a percentage of total revenues were 30.1% for the third quarter of 2006 as compared to 29.0% in the third quarter of 2005. Payroll expenses as a percentage of total revenues were 32.5% for the 39-week period ended July 1, 2006 as compared to 31.8% for the 39-week period ended July 2, 2005. Minimum wage increase in both New York and Washington D.C. has adversely affected payroll expenses. Occupancy expenses as a percentage of total revenues were 13.4% during the third fiscal quarter of 2006 compared to 12.6% in the third quarter of 2005. Occupancy expenses as a percentage of total revenues were 14.8% during the 39-week period ended July 1, 2006 compared 14.2% for the 39-week period ended July 2, 2005. Other operating costs and expenses as a percentage of total revenues were 11.7% for the third quarter of 2006 compared to 11.6% in the third quarter of 2005. Other operating costs and expenses as a percentage of total revenues were 12.2% for the 39-week period ended July 1, 2006 compared to 11.8% for the 39-week period ended July 2, 2005. General and administrative expenses as a percentage of total revenues were 5.7% for the third quarter of 2006 as compared to 5.9% for the third quarter of and 2005. General and administrative expenses as a percentage of total revenue were 6.4% for the 39-week period ended July 1, 2006 compared to 6.6% for the 39-week period ended July 2, 2005.

Income Taxes

The provision for income taxes reflects Federal income taxes calculated on a consolidated basis and state and local income taxes calculated by each New York subsidiary on a non-consolidated basis. Most of the restaurants owned or managed by the Company are owned or managed by separate subsidiaries.

For state and local income tax purposes, the losses incurred by a subsidiary may only be used to offset that subsidiary's income, with the exception of the restaurants operating in the District of Columbia. Accordingly, the Company's overall effective tax rate has varied depending on the level of losses incurred at individual subsidiaries.

The Company's overall effective tax rate in the future will be affected by factors such as the level of losses incurred at the Company's New York facilities, which cannot be consolidated for state and local tax purposes, pre-tax income earned outside

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

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

Liquidity and Capital Resources

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

The Company had a working capital surplus of \$6,979,000 at July 1, 2006 as compared to a working capital surplus of \$4,299,000 at October 1, 2005.

The Company's Revolving Credit and Term Loan Facility with its main bank (Bank Leumi USA), which included a \$8,500,000 credit line to finance the development and construction of new restaurants and for working capital purposes at the Company's existing restaurants, matured on March 12, 2005. The Company does not currently plan to enter into another credit facility and expects required cash to be provided by operations.

Restaurant Expansion

In December 2005, the Company opened a restaurant, Gallagher's Steakhouse, and a bar, Luna Lounge, at the Resorts Atlantic City Hotel and Casino in Atlantic City, New Jersey.

During the second fiscal quarter of 2006, the Company entered into an agreement to operate a marketplace style restaurant known as the Fifth Street Cafe in the poker room at the Foxwoods Resort Casino in Mashantucket, Connecticut. The Fifth Street Cafe opened on March 17, 2006. In addition, in May 2005, the Company entered into an agreement to operate a fast-casual restaurant known as Lucky Seven in the Bingo Hall at the Foxwoods Resort Casino. Lucky Seven opened on May 15, 2006. Outside investors invested in a limited liability company established to manage these facilities. The Company is the managing member of this limited liability company and, through the limited liability company, the Company leases and manages each of these facilities in exchange for a monthly management fee equal to five-percent of the gross receipts of these facilities. Neither the Company nor any of its subsidiaries contributed any capital to this limited liability company. None of the obligations of this limited liability company are guaranteed by the Company and investors in this limited liability company have no recourse against the Company or any of its assets.

On July 27, 2006, the Company entered into an agreement to operate a casual sit-down restaurant known as The Grill at Two Trees in the Two Trees Inn, a facility owned by the Mashantucket Pequot Tribal Nation and used by Foxwoods Resort Casino, in Ledyard, Connecticut. The agreement provides that the Company cannot take possession of the restaurant until the Company obtains a liquor license for the facility. The Company is currently in the process of applying for such liquor license.

Recent Restaurant Dispositions

The Company entered into a sale and leaseback agreement with GE Capital in November 2000 to refinance the purchase of various restaurant equipment at its

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

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, the Company made an unprovided for lump sum payment of \$142,000 due under this lease. This lump sum payment is included in discontinued operations.

The Company's restaurant, America, located in New York City has experienced declining sales for several years. In March 2004, the Company entered into a new lease for this restaurant at a significantly increased rent. The Company entered into this lease with the belief that due to the location and the uniqueness of the space the lease had value. 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 gain of \$644,000 on the sale of this restaurant. The Company recorded a loss of \$1,000 and income of \$57,000, respectively, during the 13-week and 39-week periods ended July 2, 2005. The gain on sale, income and loss were included in discontinued operations.

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

- 10 -

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 have failed to reach the level sufficient to achieve the results the Company required and the Company is seeking a buyer for this facility. As of December 31, 2005, the Company has 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 Company has met the criteria under SFAS No. 144. The Company recorded an operating loss of \$276,000 and \$778,000, respectively, during the 13-week and 39-week periods ended July 1, 2006. The Company recorded an operating loss of \$284,000 and \$693,000, respectively, during the 13-week and 39-week periods ended July 2, 2005. These losses are included in discontinued operations.

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, General Growth Properties, notified the Company 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 the Company with the unamortized portion of the non-removable improvements located in the facility. On August 10, 2006, the Company and its landlord for this facility entered into a letter agreement pursuant to which the landlord agreed to pay the Company \$200,000 for the unamortized portion of the non-removable improvements located in the facility by September 10, 2006. Based on the negotiations with the landlord, the Company does not anticipate a loss on the termination of the lease.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

Critical Accounting Policies

The preparation of financial statements requires the application of certain accounting policies, which may require the Company to make estimates and assumptions of future events. In the process of preparing its consolidated financial statements, the Company estimates the appropriate carrying value of certain assets and liabilities, which are not readily apparent from other sources. The primary estimates underlying the Company's financial statements include allowances for potential bad debts on accounts and notes receivable, the useful lives and recoverability of its assets, such as property and intangibles, fair values of financial instruments, the realizable value of its tax assets and other matters. Management bases its estimates on certain assumptions, which they believe are reasonable in the circumstances, and actual results, could differ from those estimates. Although management does not believe that any change in those assumptions in the near term would have a material effect on the Company's consolidated financial position or the results of operations, differences in actual results could be material to the financial statements.

The Company's critical accounting policies are described in the Company's Form 10-K for the year ended October 1, 2005. With the exception of the application of SFAS No. 123R, as previously discussed, there have been no significant changes to such policies during fiscal 2006.

Recent Accounting Developments

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

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, Accounting Changes and Error Corrections ("SFAS No. 154"), a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, changing the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not anticipate SFAS No. 154 will have a material effect on its consolidated financial position, results of operations and cash flows.

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 the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial position.

- 11 -

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

None.

Item 4. Controls and Procedures

Based on their evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are effective as of December 31, 2005 to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no changes in the Company's internal control over financial reporting during the third quarter of fiscal year 2006 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

- 12 -

PART II OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits

- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certificate of Chief Executive and Chief Financial Officers

- 13 -

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 15, 2006

ARK RESTAURANTS CORP.

By: /s/ Michael Weinstein

Michael Weinstein
Chairman, President & Chief Executive Officer

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

By: /s/ Robert J. Stewart

Robert J. Stewart
Chief Financial Officer

- 14 -