

ARK RESTAURANTS CORP  
Form 10-Q  
August 16, 2016  
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

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

For the quarterly period ended July 2, 2016

Commission file number 1-09453

**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 (the "Exchange Act") during the preceding 12 months (or for shorter period that the

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding shares at August 11, 2016
(Common stock, \$.01 par value)	3,423,220

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

On one or more occasions, we may make statements in this Quarterly Report on Form 10-Q regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements, other than statements of historical facts, included or incorporated by reference herein relating to management's current expectations of future financial performance, continued growth and changes in economic conditions or capital markets are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "targets," "result," "hopes," "will continue" or similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. We caution that while we make such statements in good faith and we believe such statements are based on reasonable assumptions, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved. Factors that may cause such differences include: economic conditions generally and in each of the markets in which we are located, the amount of sales contributed by new and existing restaurants, labor costs for our personnel, fluctuations in the cost of food products, adverse weather conditions, changes in consumer preferences and the level of competition from existing or new competitors.

We have attempted to identify, in context, certain of the factors that we believe may cause actual future experience and results to differ materially from our current expectation regarding the relevant matter or subject area. In addition to the items specifically discussed above, our business, results of operations and financial position and your investment in our common stock are subject to the risks and uncertainties described in "Item 1A Risk Factors" in Part I of our Annual Report on Form 10-K for the fiscal year ended October 3, 2015 ("Form 10-K") as may be updated by the information contained under the caption "Item 1A. Risk Factors" in Part II of this Quarterly Report on Form 10-Q.

From time to time, oral or written forward-looking statements are also included in our reports on Forms 10-K, 10-K/A, 10-Q, 10-Q/A and 8-K, our Schedule 14A, our press releases and other materials released to the public. Although we believe that at the time made, the expectations reflected in all of these forward-looking statements are and will be reasonable; any or all of the forward-looking statements may prove to be incorrect. This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Quarterly Report on Form 10-Q, certain of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Quarterly Report on Form 10-Q or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related

subjects in our subsequent periodic reports filed with the Securities and Exchange Commission on Forms 10-K, 10-K/A, 10-Q, 10-Q/A and 8-K and Schedule 14A.

Unless the context requires otherwise, references to “we,” “us,” “our,” “ARKR” and the “Company” refer specifically to Ark Restaurants Corp., and its subsidiaries, partnerships, variable interest entities and predecessor entities.

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**Part I. Financial Information****Item 1. Consolidated Condensed Financial Statements****ARK RESTAURANTS CORP. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS**

(In Thousands, Except Per Share Amounts)

	July 2, 2016  (unaudited)	October 3, 2015  (see Note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (includes \$876 at July 2, 2016 and \$604 at October 3, 2015 related to VIEs)	\$ 8,519	\$9,735
Accounts receivable (includes \$432 at July 2, 2016 and \$303 at October 3, 2015 related to VIEs)	3,332	3,221
Employee receivables	482	485
Inventories (includes \$22 at July 2, 2016 and \$24 at October 3, 2015 related to VIEs)	1,925	1,956
Prepaid expenses and other current assets (includes \$228 at July 2, 2016 and \$216 at October 3, 2015 related to VIEs)	2,821	2,365
Total current assets	17,079	17,762
FIXED ASSETS - Net (includes \$26 at July 2, 2016 and \$40 at October 3, 2015 related to VIEs)	29,995	27,804
INTANGIBLE ASSETS - Net	568	499
GOODWILL	7,895	6,813
TRADEMARKS	1,611	1,221
DEFERRED INCOME TAXES	3,913	4,453
INVESTMENT IN AND RECEIVABLE FROM NEW MEADOWLANDS RACETRACK	6,489	6,453
OTHER ASSETS (includes \$71 at July 2, 2016 and October 3, 2015 related to VIEs)	2,049	1,562
<b>TOTAL ASSETS</b>	<b>\$ 69,599</b>	<b>\$66,567</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade (includes \$77 at July 2, 2016 and \$81 at October 3, 2015 related to VIEs)	\$ 3,104	\$3,207
Accrued expenses and other current liabilities (includes \$326 at July 2, 2016 and \$131 at October 3, 2015 related to VIEs)	10,147	10,332
Accrued income taxes	1,898	2,477
Current portion of notes payable	2,571	1,617
Total current liabilities	17,720	17,633
OPERATING LEASE DEFERRED CREDIT (includes \$75 at July 2, 2016 and \$81 at October 3, 2015 related to VIEs)	3,606	3,796

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NOTES PAYABLE, LESS CURRENT PORTION	5,975	3,907
TOTAL LIABILITIES	27,301	25,336
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Common stock, par value \$.01 per share - authorized, 10,000 shares; issued, 3,418 and 4,774 shares at July 2, 2016 and October 3, 2015; outstanding, 3,418 shares at July 2, 2016 and October 3, 2015	34	48
Additional paid-in capital	12,763	25,682
Retained earnings	27,026	26,548
	39,823	52,278
Less treasury stock, at cost, of 1,356 shares at October 3, 2015	—	(13,220)
Total Ark Restaurants Corp. shareholders' equity	39,823	39,058
NON-CONTROLLING INTERESTS	2,475	2,173
TOTAL EQUITY	42,298	41,231
TOTAL LIABILITIES AND EQUITY	\$ 69,599	\$66,567

See notes to consolidated condensed financial statements.

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**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(In Thousands, Except Per Share Amounts)

	13 Weeks Ended		39 Weeks Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
<b>REVENUES:</b>				
Food and beverage sales	\$40,935	\$40,016	\$110,503	\$104,278
Other revenue	298	359	1,111	1,004
Total revenues	41,233	40,375	111,614	105,282
<b>COSTS AND EXPENSES:</b>				
Food and beverage cost of sales	10,656	10,573	29,440	28,491
Payroll expenses	12,895	12,019	38,100	34,158
Occupancy expenses	3,309	4,351	11,891	12,367
Other operating costs and expenses	4,999	4,858	14,485	13,473
General and administrative expenses	2,956	2,769	8,996	8,200
Depreciation and amortization	1,109	1,104	3,384	3,308
Total costs and expenses	35,924	35,674	106,296	99,997
<b>OPERATING INCOME</b>	<b>5,309</b>	<b>4,701</b>	<b>5,318</b>	<b>5,285</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense	116	81	316	206
Interest income	(12 )	(12 )	(36 )	(35 )
Other (income) expense, net	(217 )	(42 )	(439 )	(164 )
Total other (income) expense, net	(113 )	27	(159 )	7
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>5,422</b>	<b>4,674</b>	<b>5,477</b>	<b>5,278</b>
Provision for income taxes	1,362	1,051	1,398	1,219
<b>CONSOLIDATED NET INCOME</b>	<b>4,060</b>	<b>3,623</b>	<b>4,079</b>	<b>4,059</b>
Net income attributable to non-controlling interests	(693 )	(382 )	(1,036 )	(678 )
<b>NET INCOME ATTRIBUTABLE TO ARK RESTAURANTS CORP.</b>	<b>\$3,367</b>	<b>\$3,241</b>	<b>\$3,043</b>	<b>\$3,381</b>
<b>NET INCOME PER ARK RESTAURANTS CORP. COMMON SHARE:</b>				
Basic	\$0.99	\$0.95	\$0.89	\$1.00
Diluted	\$0.96	\$0.92	\$0.87	\$0.97
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>				
Basic	3,418	3,403	3,418	3,388
Diluted	3,494	3,517	3,504	3,500

See notes to consolidated condensed financial statements.

## ARK RESTAURANTS CORP. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE 39 WEEKS ENDED JULY 2, 2016 AND JUNE 27, 2015

(In Thousands, Except Per Share Amounts)

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Ark Restaurants Corp. Shareholders' Equity	Non- controlling Interests	Total Equity
BALANCE - September 27, 2014	4,733	\$ 47	\$ 25,167	\$ 24,554	\$(13,220)	\$ 36,548	\$ 2,344	\$ 38,892
Net income	—	—	—	3,381	—	3,381	678	4,059
Exercise of stock options	28	1	355	—	—	356	—	356
Tax benefit on exercise of stock options	—	—	94	—	—	94	—	94
Stock-based compensation	—	—	313	—	—	313	—	313
Distributions to non-controlling interests	—	—	—	—	—	—	(826 )	(826 )
Accrued and paid dividends - \$0.75 per share	—	—	—	(2,543 )	—	(2,543 )	—	(2,543 )
BALANCE - June 27, 2015	4,761	\$ 48	\$ 25,929	\$ 25,392	\$(13,220)	\$ 38,149	\$ 2,196	\$ 40,345
BALANCE - October 3, 2015	4,774	\$ 48	\$ 25,682	\$ 26,548	\$(13,220)	\$ 39,058	\$ 2,173	\$ 41,231
Net income	—	—	—	3,043	—	3,043	1,036	4,079
Exercise of stock options	—	—	1	—	—	1	—	1
Stock-based compensation	—	—	286	—	—	286	—	286
Retirement of treasury shares	(1,356)	(14 )	(13,206 )	—	13,220	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	(734 )	(734 )
Dividends paid - \$0.75 per share	—	—	—	(2,565 )	—	(2,565 )	—	(2,565 )
BALANCE - July 2, 2016	3,418	\$ 34	\$ 12,763	\$ 27,026	\$—	\$ 39,823	\$ 2,475	\$ 42,298

See notes to consolidated condensed financial statements.



**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(In Thousands)

	39 Weeks Ended	
	July 2, 2016	June 27, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated net income	\$4,079	\$4,059
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Loss on closure of restaurants	16	—
Deferred income taxes	540	443
Stock-based compensation	286	313
Depreciation and amortization	3,384	3,308
Amortization of deferred financing costs	32	—
Operating lease deferred credit	(190 )	(318 )
Changes in operating assets and liabilities:		
Accounts receivable	(111 )	(675 )
Inventories	98	(64 )
Prepaid, refundable and accrued income taxes	(594 )	(234 )
Prepaid expenses and other current assets	(350 )	(291 )
Other assets	(373 )	(169 )
Accounts payable - trade	(103 )	34
Accrued expenses and other current liabilities	(426 )	127
Net cash provided by operating activities	6,288	6,533
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(1,482 )	(2,622)
Loans and advances made to employees	(161 )	(110 )
Payments received on employee receivables	164	134
Payments received on note receivable	—	253
Purchase of member interest in Meadowlands Newmark LLC	—	(111 )
Purchase of Shuckers	(717 )	—
Net cash used in investing activities	(2,196 )	(2,456)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(1,879 )	(1,390)
Payment of debt financing costs	(131 )	—
Dividends paid	(2,565 )	(3,387)
Proceeds from issuance of stock upon exercise of stock options	1	356
Excess tax benefits related to stock-based compensation	—	94
Distributions to non-controlling interests	(734 )	(826 )
Net cash used in financing activities	(5,308 )	(5,153)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,216 )	(1,076)
CASH AND CASH EQUIVALENTS, Beginning of period	9,735	8,662

CASH AND CASH EQUIVALENTS, End of period	\$8,519	\$7,586
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$316	\$183
Income taxes	\$1,486	\$917
Non-cash financing activities:		
Note payable in connection with the purchase of Shuckers	\$5,000	\$—
Retirement of 1,356 treasury shares	\$13,220	\$—

See notes to consolidated condensed financial statements.

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**ARK RESTAURANTS CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

July 2, 2016

(Unaudited)

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**1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The consolidated condensed balance sheet as of October 3, 2015, which has been derived from audited financial statements included in the Form 10-K, and the unaudited interim consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. All adjustments that, in the opinion of management are necessary for a fair presentation for the periods presented, have been reflected as required by Regulation S-X, Rule 10-01. Such adjustments are of a normal, recurring nature. 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 3, 2015. The results of operations for interim periods are not necessarily indicative of the operating results to be expected for the full year or any other interim period.

The Company identified an immaterial error in previously issued financial statements related to an overstatement of a rent liability in the amount of \$261,000 (\$191,000 net of tax or \$0.06 per basic and \$0.05 per diluted share for the 13 and 39-weeks ended July 2, 2016). The Company reviewed this accounting error utilizing SEC Staff Accounting Bulletin No. 99, “Materiality” (“SAB 99”) and SEC Staff Accounting Bulletin No. 108, “Effects of Prior Year Misstatements on Current Year Financial Statements” (“SAB 108”) and determined the impact of the error to be immaterial to any prior period’s presentation. The accompanying consolidated condensed financial statements as of July 2, 2016 reflect the correction of the aforementioned immaterial error.

**PRINCIPLES OF CONSOLIDATION** — The consolidated condensed interim financial statements include the accounts of Ark Restaurants Corp. and all of its wholly-owned subsidiaries, partnerships and other entities in which it has a controlling interest, collectively herein referred to as the “Company”. Also included in the consolidated condensed interim financial statements are certain variable interest entities (“VIEs”). All significant intercompany balances and transactions have been eliminated in consolidation.

**SEASONALITY** — The Company has substantial fixed costs that do not decline proportionally with sales. The first and second fiscal quarters, which include the winter months, usually reflect lower customer traffic than in the third and

fourth fiscal quarters. In addition, sales in the third and fourth fiscal quarters can be adversely affected by inclement weather due to the significant amount of outdoor seating at the Company's restaurants.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** — The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair values of notes receivable and payable are determined using current applicable rates for similar instruments as of the consolidated condensed balance sheet date and approximate the carrying value of such debt instruments.

**CASH AND CASH EQUIVALENTS** — Cash and cash equivalents include cash on hand, deposits with banks and highly liquid investments generally with original maturities of three months or less. Outstanding checks in excess of account balances, typically vendor payments, payroll and other contractual obligations disbursed after the last day of a reporting period are reported as a current liability in the accompanying consolidated condensed balance sheets.

**CONCENTRATIONS OF CREDIT RISK** — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company reduces credit risk by placing its cash and cash equivalents with major financial institutions with high credit ratings. At times, such amounts may exceed Federally insured limits. Accounts receivable are primarily comprised of normal business receivables, such as credit card receivables, that are paid off in a short period of time and amounts due from the hotel operators where the Company has a location, and are recorded when the products or services have been delivered. The Company reviews the collectability of its receivables on an ongoing basis, and provides for an allowance when it considers the entity unable to meet its obligation. The concentration of credit risk with respect to accounts receivable is generally limited due to the short payment terms extended by the Company and the number of customers comprising the Company's customer base.

For the 13 and 39-week periods ended July 2, 2016 and June 27, 2015, the Company did not make purchases from any one vendor that accounted for 10% or greater of total purchases for the respective period.

**SEGMENT REPORTING** — As of July 2, 2016, the Company owned and operated 21 restaurants and bars, 19 fast food concepts and catering operations, exclusively in the United States, that have similar economic characteristics, nature of products and service, class of customers and distribution methods. The Company believes it meets the criteria for aggregating its operating segments into a single reporting segment in accordance with applicable accounting guidance.

**RECENTLY ADOPTED ACCOUNTING STANDARDS** — In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which changes the presentation of debt issuance costs in a reporting entity’s financial statements. Under this new guidance, debt issuance costs will be presented as a direct deduction from the related debt liability instead of an asset. This accounting change is consistent with the current presentation under GAAP for debt discounts and it also converges the guidance under GAAP with that in the International Financial Reporting Standards. Debt issuance costs will reduce the proceeds from debt borrowings in the statement of cash flows instead of being presented as a separate caption in the financing section of that statement. Amortization of debt issuance costs will continue to be reported as interest expense in the statements of income. This accounting update does not affect the current accounting guidance for the recognition and measurement of debt issuance costs. This update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for all entities for financial statements that have not been previously issued. This guidance has been adopted by the Company as of October 4, 2015 and did not have a material impact on its consolidated condensed financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The new guidance simplifies the accounting for adjustments made to provisional amounts recognized in a business combination and eliminates the requirement to retrospectively account for those adjustments. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The new guidance has been adopted by the Company as of October 4, 2015 and did not have a material impact on our consolidated condensed financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. The new guidance has been adopted on a prospective basis by the Company for the fiscal year ended October 3, 2015.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED** — In May 2014, the FASB issued updated accounting guidance that provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The pronouncement is effective for annual and interim reporting periods beginning after December 15, 2017. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact of the adoption of this guidance on its financial condition, results of operations or cash flows as well as the expected adoption method.

In June 2014, the FASB issued guidance which clarifies the recognition of stock-based compensation over the required service period, if it is probable that the performance condition will be achieved. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and should be applied prospectively. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated condensed financial condition or results of operations.

In August 2014, the FASB issued guidance that requires management to evaluate, at each annual and interim reporting period, the company's ability to continue as a going concern within one year of the date the financial statements are issued and provide related disclosures. This accounting guidance is effective for the Company on a prospective basis beginning in the first quarter of fiscal 2017 and is not expected to have a material effect on the Consolidated Condensed Financial Statements.

In January 2015, the FASB issued guidance simplifying the income statement presentation by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The amendments are effective for annual reporting periods, including interim periods within those reporting periods, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the annual reporting period. The Company does not believe this guidance will have a material impact on its Consolidated Condensed Financial Statements.

In February 2015, the FASB amended the consolidation standards for reporting entities that are required to evaluate whether they should consolidate certain legal entities. Under the new guidance, all legal entities are subject to reevaluation under the revised consolidation model. Specifically, the guidance (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (ii) eliminates the presumption that a general partner should consolidate a limited partnership; (iii) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (iv) provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in

accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act for registered money market funds. The amendments are effective for annual reporting periods, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this guidance on its Consolidated Condensed Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, rather than the lower of cost or market in the previous guidance. This amendment applies to inventory that is measured using first-in, first-out (FIFO). This amendment is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those years. A reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on its financial position or results of operations.

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance will require equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The amendments in this update will also simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet and require these entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. This guidance also changes the presentation and disclosure requirements for financial instruments as well as clarifying the guidance related to valuation allowance assessments when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The amendments in this guidance are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for financial statements of fiscal years and interim periods that have not been issued. The Company is currently assessing the potential impact of this ASU on its consolidated condensed financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. This ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the potential impact of this ASU on its consolidated condensed financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers – Principal versus Agent Considerations*. This ASU is intended to clarify revenue recognition accounting when a third party is involved in providing goods or services to a customer. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is

currently assessing the impact of this ASU on its consolidated condensed financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation – Improvements to Employee Share-Based Payment Accounting*. This ASU is intended to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, including interim periods within those annual periods, and early application is permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the impact of this ASU on its consolidated condensed financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing*. This ASU is intended to clarify identifying performance obligations and licensing implementation guidance. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on its consolidated condensed financial statements.

## **2. VARIABLE INTEREST ENTITIES**

The Company consolidates any variable interest entities in which it holds a variable interest and is the primary beneficiary. Generally, a variable interest entity, or VIE, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) as a group the holders of the equity investment at risk lack (i) the ability to make decisions about an entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately



few voting rights. The primary beneficiary of a VIE is generally the entity that has (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company has determined that it is the primary beneficiary of three VIEs and, accordingly, consolidates the financial results of these entities. Following are the required disclosures associated with the Company's consolidated VIEs:

	July 2, 2016	October 3, 2015
	<b>(in thousands)</b>	
Cash and cash equivalents	\$876	\$604
Accounts receivable	432	303
Inventories	22	24
Prepaid expenses and other current assets	228	216
Due from Ark Restaurants Corp. and affiliates (1)	24	103
Fixed assets - net	26	40
Other assets	71	71
Total assets	\$1,679	\$1,361
Accounts payable - trade	\$77	\$81
Accrued expenses and other current liabilities	326	131
Operating lease deferred credit	75	81
Total liabilities	478	293
Equity of variable interest entities	1,201	1,068
Total liabilities and equity	\$1,679	\$1,361

(1) Amounts Due from Ark Restaurants Corp. and affiliates are eliminated upon consolidation.

The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against the Company's general assets.

### 3. RECENT RESTAURANT EXPANSION

On October 22, 2015, the Company, through its wholly-owned subsidiaries, Ark Shuckers, LLC and Ark Shuckers Real Estate, LLC, acquired the assets of *Shuckers Inc.* ("*Shuckers*"), a restaurant and bar located at the Island Beach Resort in Jensen Beach, FL, and six condominium units (four of which house the restaurant and bar operations). In

addition, Ark Island Beach Resort LLC, a wholly-owned subsidiary of the Company, acquired Island Beach Resort Inc., a management company that administers a rental pool of certain condominium units under lease. The total purchase price was \$5,717,000. The acquisition is accounted for as a business combination and was financed with a bank loan in the amount of \$5,000,000 and cash from operations. The fair values of the assets acquired were allocated as follows:

Inventory	\$67,000
Commercial condominium units	3,584,800
Residential condominium units	263,000
Furniture, fixtures and equipment	240,000
Trademarks	390,000
Customer list	90,000
Goodwill	1,082,200
	\$5,717,000

The above purchase price allocation resulted in an increase (decrease) related to the trademarks, customer list and goodwill of \$240,000, \$(110,000) and \$(130,000), respectively, from the preliminary allocation. The resulting changes to customer list amortization were not material to any period presented.

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The Consolidated Condensed Statements of Income for the 13 and 39-weeks ended July 2, 2016 include revenues and earnings of approximately \$1,286,000 and \$116,000 and \$3,867,000 and \$657,000, respectively, related to *Shuckers*. The unaudited pro forma financial information set forth below is based upon the Company's historical Consolidated Condensed Statements of Income for the 13 and 39-weeks ended July 2, 2016 and June 27, 2015 and includes the results of operations for *Shuckers* for the period prior to acquisition. The unaudited pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the acquisition of *Shuckers* occurred on the dates indicated, nor does it purport to represent the results of operations for future periods.

	13 Weeks Ended		39 Weeks Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Total revenues	\$41,233	\$41,776	\$111,856	\$109,507
Net income	\$3,367	\$3,396	\$3,064	\$4,293
Net income per share - basic	\$0.99	\$1.00	\$0.90	\$1.27
Net income per share - diluted	\$0.96	\$0.97	\$0.87	\$1.23

On July 18, 2014, the Company, through a wholly-owned subsidiary, Ark Jupiter RI, LLC, entered into an agreement with Crab House, Inc., and acquired certain assets and the related lease for a restaurant and bar located in Jupiter, Florida for approximately \$250,000. In connection with this transaction, the Company entered into an amended lease for an initial period expiring through December 31, 2015. In June 2015, the Company exercised its option to extend the lease through December 31, 2023. The Company has additional options to extend the lease through 2033. Renovations to the property totaled approximately \$750,000. The restaurant opened as *The Rustic Inn* in the last week of January 2015.

On March 27, 2015, the Company, through a wholly-owned subsidiary, entered into an agreement to operate a kiosk in Bryant Park, NY for the sale of food and beverages for an initial period expiring through March 31, 2020 with an option to extend the agreement for five additional years. Renovations totaled approximately \$400,000 and the property opened in July 2015.

On July 24, 2015, the Company, through a wholly-owned subsidiary, paid \$544,000 (including a \$144,000 security deposit) to assume the lease for an event space located in New York, NY. The assumed lease expires through March 31, 2026 with an option to extend the agreement for five additional years and provides for annual rent in the amount of approximately \$300,000.

#### 4. RECENT RESTAURANT DISPOSITIONS

*Lease Expirations* – On October 31, 2014, the Company's lease at the *Towers Deli* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2014, the Company's lease at the *Shake & Burger* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2015, the Company's lease at the *V-Bar* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

The Company was advised by the landlord that it would have to vacate the *Center Café* property located at Union Station in Washington, DC which was on a month-to-month lease. The closure of this property occurred in February 2016 and did not result in a material charge.

## **5. INVESTMENT IN NEW MEADOWLANDS RACETRACK**

On March 12, 2013, the Company made a \$4,200,000 investment in the New Meadowlands Racetrack LLC ("NMR") through its purchase of a membership interest in Meadowlands Newmark, LLC, an existing member of NMR. On November 19, 2013, the Company invested an additional \$464,000 in NMR through a purchase of an additional membership interest in Meadowlands Newmark, LLC resulting in a total ownership of 11.6% of Meadowlands Newmark, LLC, subject to dilution. In 2015, the Company invested an additional \$222,000, as a result of capital calls, bringing its total investment to \$4,886,000 with no change in ownership.

In addition to the Company's ownership interest in NMR through Meadowlands Newmark, LLC, if casino gaming is approved at the Meadowlands and NMR is granted the right to conduct said gaming, neither of which can be assured, the Company shall be

granted the exclusive right to operate the food and beverage concessions in the gaming facility with the exception of one restaurant. This investment has been accounted for based on the cost method. The Company periodically reviews its investments for impairment. If the Company determines that an other-than-temporary impairment has occurred, it will write-down the investment to its fair value. No indication of impairment was noted as of July 2, 2016.

In conjunction with this investment, the Company, through a 97% owned subsidiary, Ark Meadowlands LLC (“AM VIE”), also entered into a long-term agreement with NMR for the exclusive right to operate food and beverage concessions serving the new raceway facilities (the “Racing F&B Concessions”) located in the new raceway grandstand constructed at the Meadowlands Racetrack in northern New Jersey. Under the agreement, NMR is responsible to pay for the costs and expenses incurred in the operation of the Racing F&B Concessions, and all revenues and profits thereof inure to the benefit of NMR. AM VIE receives an annual fee equal to 5% of the net profits received by NMR from the Racing F&B Concessions during each calendar year. At July 2, 2016, it was determined that AM VIE is a variable interest entity. However, based on qualitative consideration of the contracts with AM VIE, the operating structure of AM VIE, the Company’s role with AM VIE, and that the Company is not obligated to absorb any expected losses of AM VIE, the Company has concluded that it is not the primary beneficiary and not required to consolidate the operations of AM VIE.

The Company’s maximum exposure to loss as a result of its involvement with AM VIE is limited to a receivable from AM VIE’s primary beneficiary (NMR, a related party) which aggregated approximately \$161,000 and \$272,000 at July 2, 2016 and October 3, 2015, respectively, and are included in Prepaid Expenses and Other Current Assets in the Consolidated Condensed Balance Sheets.

On April 25, 2014, the Company loaned \$1,500,000 to Meadowlands Newmark, LLC. The note bears interest at 3%, compounded monthly and added to the principal, and is due in its entirety on January 31, 2024. The note may be prepaid, in whole or in part, at any time without penalty or premium. The principal and accrued interest related to this note totaled \$1,602,609 and \$1,566,997 at July 2, 2016 and October 3, 2015, respectively.

## 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	July 2, 2016	October 3, 2015
	(In thousands)	
Sales tax payable	\$1,344	\$992
Accrued wages and payroll related costs	2,167	1,832
Customer advance deposits	3,545	3,967

Accrued occupancy and other operating expenses	3,091	3,541
	\$10,147	\$10,332

## 7. NOTES PAYABLE - BANK

On February 25, 2013, the Company issued a promissory note to Bank Hapoalim B.M. (the “BHBM”) for \$3,000,000. The note bore interest at LIBOR plus 3.5% per annum, and was payable in 36 equal monthly installments of \$83,333, commencing on March 25, 2013. On February 24, 2014, in connection with the acquisition of *The Rustic Inn*, the Company borrowed an additional \$6,000,000 from BHBM under the same terms and conditions as the original loan which was consolidated with the remaining principal balance from the original borrowing at that date. The new loan is payable in 60 equal monthly installments of \$134,722, which commenced on March 25, 2014. As of July 2, 2016, the outstanding balance of this note payable was approximately \$4,311,000.

On October 22, 2015, in connection with the acquisition of *Shuckers*, the Company issued a promissory note to BHBM for \$5,000,000. The note bears interest at LIBOR plus 3.5% per annum, and is payable in 60 equal monthly installments of \$83,333, commencing on November 22, 2015. As of July 2, 2016, the outstanding balance of this note payable was approximately \$4,333,000.

On October 22, 2015, in connection with the *Shuckers* transaction, the Company also entered into a credit agreement (the “Revolving Facility”) with BHBM which expires on October 21, 2017 and provides for total availability of the lesser of (i) \$10,000,000 and (ii) \$20,000,000 less the then aggregate amount of all indebtedness and obligations to BHBM. Borrowings under the Revolving Facility will be evidenced by a promissory note (the “Revolving Note”) in favor of BHBM and will be payable over five years with interest at an annual rate equal to LIBOR plus 3.5% per year. As of July 2, 2016, no additional amounts were outstanding under the Revolving Facility.

Deferred financing costs incurred in connection with the Revolving Facility in the amount of \$130,585 are being amortized over the life of the agreements on a straight line basis. Amortization expense of \$11,395 and \$31,680 for the 13 and 39-weeks ended July 2, 2016 is included in interest expense.

Borrowings under the Revolving Facility, which include both of the above promissory notes, are secured by all tangible and intangible personal property (including accounts receivable, inventory, equipment, general intangibles, documents, chattel paper, instruments, letter-of-credit rights, investment property, intellectual property and deposit accounts) and fixtures of the Company.

The loan agreements provide, among other things, that the Company meet minimum quarterly tangible net worth amounts, as defined, maintain a fixed charge coverage ratio of not less than 1.1:1 and minimum annual net income amounts, and contain customary representations, warranties and affirmative covenants. The agreements also contain customary negative covenants, subject to negotiated exceptions, on liens, relating to other indebtedness, capital expenditures, liens, affiliate transactions, disposal of assets and certain changes in ownership. The Company was in compliance with all debt covenants as of July 2, 2016.

## 8. COMMITMENTS AND CONTINGENCIES

**Leases** — The Company leases its restaurants, bar facilities, and administrative headquarters through its subsidiaries under terms expiring at various dates through 2032. 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 restaurant's sales in excess of stipulated amounts at such facility and in one instance based on profits.

On January 12, 2016, the Company entered into an Amended and Restated Lease for its *Sequoia* property in Washington D.C. extending the lease for 15 years through November 30, 2032 with one additional five-year option. Annual rent under the new lease is approximately \$1,200,000 increasing annually through expiration. Under the terms of the agreement, the property will be closed from January 1, 2017 through March 31, 2017 for renovation and reconcepting. The Company is currently developing the concept and design relating to the renovated space and estimates the total cost to be approximately \$4,000,000 to \$5,000,000.

**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, from time to time, in litigation alleging violation by the Company of employment discrimination laws. Management believes, based in part on the advice of counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## 9. STOCK OPTIONS

The Company has options outstanding under two stock option plans, the 2004 Stock Option Plan (the “2004 Plan”) and the 2010 Stock Option Plan (the “2010 Plan”), which was approved by shareholders in the second quarter of 2010. Effective with this approval, the Company terminated the 2004 Plan. This action terminated the 400 authorized but unissued options under the 2004 Plan, but it did not affect any of the options previously issued under the 2004 Plan. 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.

Under the 2010 Plan, 500,000 options were authorized for future grant. Options granted under the 2010 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.

On April 5, 2016, the shareholders of the Company approved the 2016 Stock Option Plan and the Section 162(m) Cash Bonus Plan. Under the 2016 Stock Option Plan, 500,000 options were authorized for future grant and 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. Under the Section 162(m) Cash Bonus Plan, compensation paid in excess of \$1,000,000 to any employee who is the chief executive officer, or one of the three highest paid executive officers on the last day of that tax year (other than the chief executive officer or the chief financial officer) will meet certain “performance-based” requirements of Section 162(m) and the related IRS regulations in order for it to be tax deductible.

No options were granted during the 39-week period ended July 2, 2016.

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A summary of stock option activity is presented below:

	2016	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
	Shares			
Outstanding, beginning of period	523,800	\$ 20.29	6.1 Years	
Options:				
Granted	—			
Exercised	(100 )	\$ 14.40		
Canceled or expired	—			
Outstanding and expected to vest, end of period	523,700	\$ 20.29	5.4 Years	\$2,163,214
Exercisable, end of period	422,200	\$ 19.76	4.8 Years	\$2,130,734

Compensation cost charged to operations for the 13-week periods ended July 2, 2016 and June 27, 2015 was \$79,000 and \$105,000, respectively and for the 39-week periods ended July 2, 2016 and June 27, 2015 was \$286,000 and \$313,000, respectively. The compensation cost recognized is classified as a general and administrative expense in the Consolidated Condensed Statements of Income.

As of July 2, 2016, there was no unrecognized compensation cost related to unvested stock options.

## 10. INCOME TAXES

The Company's provision for income taxes consists of Federal, state and local taxes in amounts necessary to align the Company's year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. Each quarter, the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as deemed necessary. The income tax provision for the 39-week periods ended July 2, 2016 and June 27, 2015 reflects effective tax rates of approximately 25% and 23%, respectively. The Company expects its effective tax rate for its current fiscal year to be significantly lower than the statutory rate as a result of the generation of FICA tax credits and operating income attributable to the non-controlling interests of the VIEs that is not taxable to the Company. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates.

The Company's overall effective tax rate in the future will be affected by factors such as the utilization of state and local net operating loss carryforwards, the generation of FICA tax credits and the mix of earnings by state taxing jurisdiction as Nevada does not impose a state income tax, as compared to the other major state and local jurisdictions in which the Company has operations.

## 11. INCOME PER SHARE OF COMMON STOCK

Net income per share is calculated on the basis of the weighted average number of common shares outstanding during each period plus, for diluted net income per share, the additional dilutive effect of potential common stock. Potential common stock using the treasury stock method consists of dilutive stock options.

For the 13 and 39-week periods ended July 2, 2016, options to purchase 66,000 shares of common stock at an exercise price of \$12.04 per share and options to purchase 164,700 shares of common stock at an exercise price of \$14.40 per share were included in diluted earnings per share. Options to purchase 203,000 shares of common stock at an exercise price of \$22.50 per share and options to purchase 90,000 shares of common stock at an exercise price of \$32.15 were not included in diluted earnings per share as their impact would be anti-dilutive.

For the 13 and 39-week periods ended June 27, 2015, options to purchase 74,000 shares of common stock at an exercise price of \$12.04 per share, options to purchase 169,800 shares of common stock at an exercise price of \$14.40 per share and options to purchase 205,500 shares of common stock at an exercise price of \$22.50 per share were included in diluted earnings per share. Options to purchase 90,000 shares of common stock at an exercise price of \$32.15 were not included in diluted earnings per share as their impact would be anti-dilutive.

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## 12. DIVIDENDS

On June 2, 2016, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on July 1, 2016 to shareholders of record at the close of business on June 16, 2016. The Company intends to continue to pay such quarterly cash dividends 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.

## 13. SUBSEQUENT EVENTS

On July 5, 2016, the Board of Directors authorized a share repurchase program authorizing management to purchase up to 500,000 shares of the Company's common stock during the next twelve months. Any repurchase under the program will be effected in compliance with Rule 10b-18 "Purchases of Certain Equity Securities by the Issuer and Others", funded using the Company's working capital and be based on management's evaluation of market conditions and other factors.

On July 13, 2016, the Company made an additional loan to Meadowlands Newmark LLC in the amount of \$200,000. Such amount is subject to the same terms and conditions as the original loan as discussed in Note 5.

Two subsidiaries of the Company ("the Ark Subsidiaries"), which operate food courts on Federally protected Indian land, have been involved in litigation with the state in which they operate, whereby the state has attempted to collect commercial rent tax from the Ark Subsidiaries. The Company had continued to accrue such taxes as the litigation has worked its way through the courts. During July 2016, the state agreed to the entry of consent judgments in favor of the Ark Subsidiaries holding that the state is constitutionally prohibited from taxing rentals of Indian land. In connection with this agreement, the Company has reversed the accrual of these liabilities in the amount of \$945,205 as of July 2, 2016. Such reversal is included in the Consolidated Condensed Statements of Income for the 13 and 39-weeks ended July 2, 2016 as a reduction of Occupancy Expenses with corresponding adjustments to Net Income Attributable to Non-controlling Interests and Tax Expense in the amounts of \$336,622 and \$158,840, respectively.

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

**Overview**

As of July 2, 2016, the Company owned and operated 21 restaurants and bars, 19 fast food concepts and catering operations, exclusively in the United States, that have similar economic characteristics, nature of products and service, class of customer and distribution methods. The Company believes it meets the criteria for aggregating its operating segments into a single reporting segment in accordance with applicable accounting guidance. The Consolidated Condensed Statements of Income for the 13 and 39-weeks ended July 2, 2016 include revenues and earnings of approximately \$1,286,000 and \$116,000 and \$3,867,000 and \$657,000, respectively, related to *Shuckers*, which was acquired on October 22, 2015.

*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 comparisons of operating results. Under this method, certain years will contain 53 weeks. The periods ended July 2, 2016 and June 27, 2015 each included 13 weeks.

*Seasonality*

The Company has substantial fixed costs that do not decline proportionately with sales. At our properties located in the northeast, the first and second fiscal quarters, which include the winter months, usually reflect lower customer traffic than in the third and fourth fiscal quarters. However, sales in the third and fourth fiscal quarters can be adversely affected by inclement weather due to the significant amount of outdoor seating at the Company's restaurants.

*Results of Operations*

The Company's operating income for the 13 weeks ended July 2, 2016 was \$5,309,000 as compared to \$4,701,000 for the 13 weeks ended June 27, 2015. This increase resulted primarily from: (i) the reversal of commercial rent tax liabilities in the amount of \$945,000 (see "Recent Developments"), (ii) the correction of an immaterial error related to an overstatement of a rent liability in the amount of \$261,000, and (iii) operating income of \$490,000 at *Southwest Porch* in Bryant Park, NY which was opened in July 2015, partially offset by the closure, due to lease expiration, of *V Bar* in November 2015, the closure of *Center Cafe* in February 2016 and higher than expected operating payrolls due to labor law changes.

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The following table summarizes the significant components of the Company's operating results for the 13- and 39-week periods ended July 2, 2016 and June 27, 2015, respectively:

	13 Weeks Ended		Variance		39 Weeks Ended		Variance		
	July 2, 2016	June 27, 2015	\$	%	July 2, 2016	June 27, 2015	\$	%	
	(in thousands)				(in thousands)				
<b>REVENUES:</b>									
Food and beverage sales	\$40,935	\$40,016	\$919	2.3 %	\$110,503	\$104,278	\$6,225	6.0 %	
Other revenue	298	359	(61 )	-17.0%	1,111	1,004	107	10.7%	
Total revenues	41,233	40,375	858	2.1 %	111,614	105,282	6,332	6.0 %	
<b>COSTS AND EXPENSES:</b>									
Food and beverage cost of sales	10,656	10,573	83	0.8 %	29,440	28,491	949	3.3 %	
Payroll expenses	12,895	12,019	876	7.3 %	38,100	34,158	3,942	11.5%	
Occupancy expenses	3,309	4,351	(1,042)	-23.9%	11,891	12,367	(476 )	-3.8 %	
Other operating costs and expenses	4,999	4,858	141	2.9 %	14,485	13,473	1,012	7.5 %	
General and administrative expenses	2,956	2,769	187	6.8 %	8,996	8,200	796	9.7 %	
Depreciation and amortization	1,109	1,104	5	0.5 %	3,384	3,308	76	2.3 %	
Total costs and expenses	35,924	35,674	250	0.7 %	106,296	99,997	6,299	6.3 %	
<b>OPERATING INCOME</b>	<b>\$5,309</b>	<b>\$4,701</b>	<b>\$608</b>	<b>12.9 %</b>	<b>\$5,318</b>	<b>\$5,285</b>	<b>\$33</b>	<b>0.6 %</b>	

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## Revenues

During the Company's 13- and 39-week periods ended July 2, 2016, revenues increased 2.1% and 6.0%, respectively, as compared to revenues in the 13- and 39-week periods ended June 27, 2015. This increase resulted primarily from: (i) revenues related to *Shuckers* in Jensen Beach, FL (which was acquired on October 22, 2015), (ii) revenues related to the *Southwest Porch* in Bryant Park, NY (which opened on July 1, 2015), and (iii) the same-store sales impacts discussed below, partially offset by the closure of *Center Café* in Washington, DC and three properties in Las Vegas (*V Bar*, *Shake & Burger* and *Towers Deli*) as a result of lease expirations.

### Food and Beverage Same-Store Sales

On a Company-wide basis, same-store sales decreased 1.6% during the third fiscal quarter of 2016 as compared to the same period last year as follows:

	13 Weeks Ended		Variance		
	July 2, 2016	June 27, 2015	\$	%	
	(in thousands)				
Las Vegas	\$11,161	\$11,198	\$(37 )	-0.3	%
New York	11,607	11,431	176	1.5	%
Washington, DC	4,648	4,649	(1 )	0.0	%
Atlantic City, NJ	1,705	1,595	110	6.9	%
Boston	941	1,060	(119)	-11.2	%
Connecticut	893	856	37	4.3	%
Florida	6,624	7,419	(795)	-10.7	%
Same-store sales	37,579	38,208	\$(629)	-1.6	%
Other	3,356	1,808			
Food and beverage sales	\$40,935	\$40,016			

Same-store sales in Las Vegas (which exclude *V Bar*, *Shake & Burger* and *Towers Deli* properties as they were closed prior to July 2, 2016) decreased 0.3% primarily as a result of increased competition. Same-store sales in New York increased 1.5%, primarily as a result of good weather conditions. Same-store sales in Washington, DC, which excludes *Center Café* which closed in February 2016, were flat. Same-store sales in Atlantic City increased 6.9%, primarily due to increased traffic at properties in which we operate our restaurants. Same-store sales in Boston decreased 11.2%, primarily as a result of poor weather conditions as compared to the same period last year. Same-store sales in Connecticut increased 4.3% due to slightly better traffic at the Foxwoods Resort and Casino where our properties are located. Same-store sales in Florida decreased 10.7% reflecting decreased traffic at *The Rustic Inn* in Dania Beach, FL due to a road construction project started in the second quarter of fiscal 2016 by the local municipality that is expected to last approximately 18 months combined with increased competition at one of our food court properties. Other food and beverage sales consist of sales related to new restaurants opened or acquired during the applicable period (e.g. *Southwest Porch* and *Shuckers*) and sales related to properties that were closed due to lease

expiration and other closures.

## Costs and Expenses

Costs and expenses for the 13- and 39-weeks ended July 2, 2016 and June 27, 2015 were as follows (in thousands):

	13 Weeks Ended July 2, 2016		13 Weeks Ended June 27, 2015		Increase		39 Weeks Ended July 2, 2016		39 Weeks Ended June 27, 2015		Increase (Decrease)	
	\$	% to Total Revenue	\$	% to Total Revenue	\$	%	\$	% to Total Revenue	\$	% to Total Revenue	\$	%
Food and beverage cost of sales	\$10,656	25.8%	\$10,573	26.2%	\$83	0.8%	\$29,440	26.4%	\$28,491	27.1%	\$949	3.3%
Payroll expenses	12,895	31.3%	12,019	29.8%	876	7.3%	38,100	34.1%	34,158	32.4%	3,942	11.5%
Occupancy expenses	3,309	8.0%	4,351	10.8%	(1,042)	-23.9%	11,891	10.7%	12,367	11.7%	(476)	-3.8%
Other operating costs and expenses	4,999	12.1%	4,858	12.0%	141	2.9%	14,485	13.0%	13,473	12.8%	1,012	7.5%
General and administrative expenses	2,956	7.2%	2,769	6.9%	187	6.8%	8,996	8.1%	8,200	7.8%	796	9.7%
Depreciation and amortization	1,109	2.7%	1,104	2.7%	5	0.5%	3,384	3.0%	3,308	3.1%	76	2.3%
	\$35,924		\$35,674		\$250		\$106,296		\$99,997		\$6,299	

The decrease in food and beverage costs as a percentage of total revenues for the 13- and 39-weeks ended July 2, 2016 compared to the same period of last year is primarily the result of price increases.

Payroll expenses as a percentage of total revenues for the 13- and 39-weeks ended July 2, 2016 increased primarily as a result of labor law changes and payroll incurred at *The Rustic Inn* in Jupiter, FL with no corresponding increase in sales.

Occupancy expenses as a percentage of total revenues, excluding the impact of the reversal of commercial rent tax liabilities in the amount of \$945,000 (see “Recent Developments”) and the correction of an error related to an overstatement of a rent liability in the amount of \$261,000, for the 13- and 39-weeks ended July 2, 2016 were consistent with the same periods of last year.

Other operating costs and expenses as a percentage of total revenues for the 13- and 39-weeks ended July 2, 2016 were relatively consistent with the same periods of last year.

General and administrative expenses (which relate solely to the corporate office in New York City) as a percentage of total revenues for the 13- and 39-weeks ended July 2, 2016 increased as compared to the same period of last year primarily as a result of annual compensation adjustments and transaction costs in the first quarter of 2016 of approximately \$160,000 incurred in connection with the purchase of *Shuckers*.

## **Income Taxes**

The Company’s provision for income taxes consists of Federal, state and local taxes in amounts necessary to align the Company’s year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. Each quarter, the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as deemed necessary. The income tax provision for the 39-week periods ended July 2, 2016 and June 27, 2015 reflect effective tax rates of approximately 25% and 23%, respectively. The Company expects its effective tax rate for its current fiscal year to be significantly lower than the statutory rate as a result of the generation of FICA tax credits and operating income attributable to the non-controlling interests of the VIEs that is not taxable to the Company. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates.

The Company’s overall effective tax rate in the future will be affected by factors such as the utilization of state and local net operating loss carryforwards, the generation of FICA tax credits and the mix of earnings by state taxing jurisdiction as Nevada does not impose a state income tax, as compared to the other major state and local jurisdictions in which the Company has operations.

## **Liquidity and Capital Resources**



Our primary source of capital has been cash provided by operations. We utilize cash generated from operations to fund the cost of developing and opening new restaurants, acquiring existing restaurants owned by others and remodeling existing restaurants we own; however, in recent years, we have utilized bank and other borrowings to finance specific transactions.

Net cash provided by operating activities for the 39-weeks ended July 2, 2016 decreased \$245,000 as compared to the same period of last year. This decrease was attributable to a decrease in operating income discussed above combined with changes in net working capital primarily related to accounts receivable, prepaid, refundable and accrued income taxes and accounts payable and accrued expenses.

Net cash used in investing activities for the 39-week period ended July 2, 2016 was \$2,196,000 and resulted primarily from purchases of fixed assets at existing restaurants and the cash portion of the purchase of *Shuckers* in the amount of \$717,000.

Net cash used in investing activities for the 39-week period ended June 27, 2015 was \$2,456,000 and resulted primarily from purchases of fixed assets at existing restaurants and improvements made at our new property, *The Rustic Inn* in Jupiter, FL, which was opened in the last week of January 2015.

Net cash used in financing activities for the 39-week periods ended July 2, 2016 and June 27, 2015 of \$5,308,000 and \$5,153,000, respectively, resulted primarily from the payment of dividends, principal payments on notes payable and distributions to non-controlling interests.

The Company had a working capital deficiency of \$641,000 at July 2, 2016, as compared to working capital of \$129,000 at October 3, 2015. We believe that our existing cash balances and cash provided by operations will be sufficient to meet our liquidity and capital spending requirements at least through the next 12 months.

On January 12, 2016, the Company entered into an Amended and Restated Lease for its *Sequoia* property in Washington D.C. extending the lease for 15 years through November 30, 2032 with one additional five-year option. Annual rent under the new lease is approximately \$1,200,000 increasing annually through expiration. Under the terms of the agreement, the property will be closed from January 1, 2017 through March 31, 2017 for renovation and reconcepting. The Company is currently developing the concept and design relating to the renovated space and estimates the total cost to be approximately \$4,000,000 to \$5,000,000.

On June 2, 2016, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on July 1, 2016 to shareholders of record at the close of business on June 16, 2016. The Company intends to continue to pay such quarterly cash dividends 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.

### **Recent Restaurant Expansion**

On October 22, 2015, the Company, through its wholly-owned subsidiaries, Ark Shuckers, LLC and Ark Shuckers Real Estate, LLC, acquired the assets of *Shuckers Inc.* ("*Shuckers*"), a restaurant and bar located at the Island Beach Resort in Jensen Beach, FL, and six condominium units (four of which house the restaurant and bar operations). In addition, Ark Island Beach Resort LLC, a wholly-owned subsidiary of the Company, acquired Island Beach Resort Inc., a management company that administers a rental pool of certain condominium units under lease. The total purchase price was \$5,717,000. The acquisition was accounted for as a business combination and was financed with a bank loan in the amount of \$5,000,000 and cash from operations.

On July 18, 2014, the Company, through a wholly-owned subsidiary, Ark Jupiter RI, LLC, entered into an agreement with Crab House, Inc., and acquired certain assets and the related lease for a restaurant and bar located in Jupiter, Florida for approximately \$250,000. In connection with this transaction, the Company entered into an amended lease for an initial period expiring through December 31, 2015. In June 2015, the Company exercised its option to extend the lease through December 31, 2023. The Company has additional options to extend the lease through 2033. Renovations to the property totaled approximately \$750,000. The restaurant opened as *The Rustic Inn* in the last week of January 2015.

On March 27, 2015, the Company, through a wholly-owned subsidiary, entered into an agreement to operate a kiosk in Bryant Park, NY for the sale of food and beverages for an initial period expiring through March 31, 2020 with an option to extend the agreement for five additional years. Renovations totaled approximately \$400,000 and the property opened in July 2015.

On July 24, 2015, the Company, through a wholly-owned subsidiary, paid \$544,000 (including a \$144,000 security deposit) to assume the lease for an event space located in New York, NY. The assumed lease expires through March 31, 2026 with an option to extend the agreement for five additional years and provides for annual rent in the amount of approximately \$300,000.

### **Recent Restaurant Dispositions**

**Lease Expirations** – On October 31, 2014, the Company’s lease at the *Towers Deli* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2014, the Company’s lease at the *Shake & Burger* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2015, the Company’s lease at the *V-Bar* located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

The Company was advised by the landlord that it would have to vacate the *Center Café* property located at Union Station in Washington, DC which was on a month-to-month lease. The closure of this property occurred in February 2016 and did not result in a material charge.

## **Recent Developments**

On April 5, 2016, the shareholders of the Company approved the 2016 Stock Option Plan and the Section 162(m) Cash Bonus Plan. Under the 2016 Stock Option Plan, 500,000 options were authorized for future grant and 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. Under the Section 162(m) Cash Bonus Plan, compensation paid in excess of \$1,000,000 to any employee who is the chief executive officer, or one of the three highest paid executive officers on the last day of that tax year (other than the chief executive officer or the chief financial officer) will meet certain “performance-based” requirements of Section 162(m) and the related IRS regulations in order for it to be tax deductible.

On July 5, 2016, the Board of Directors authorized a share repurchase program authorizing management to purchase up to 500,000 shares of the Company’s common stock during the next twelve months. Any repurchase under the program will be effected in compliance with Rule 10b-18 “Purchases of Certain Equity Securities by the Issuer and Others”, funded using the Company’s working capital and be based on management’s evaluation of market conditions and other factors.

On July 13, 2016, the Company made an additional loan Meadowlands Newmark LLC in the amount of \$200,000. Such amount is subject to the same terms and conditions as the original loan as discussed in Note 5 to the Consolidated Condensed Financial Statements.

Two subsidiaries of the Company (“the Ark Subsidiaries”), which operate food courts on Federally protected Indian land, have been involved in litigation with the state in which they operate, whereby the state has attempted to collect commercial rent tax from the Ark Subsidiaries. The Company had continued to accrue such taxes as the litigation has worked its way through the courts. During July 2016 the state agreed to the entry of consent judgments in favor of the Ark Subsidiaries holding that the state is constitutionally prohibited from taxing rentals of Indian land. In connection with this agreement, the Company has reversed the accrual of these liabilities in the amount of \$945,205 as of July 2, 2016. Such reversal is included in the Consolidated Condensed Statements of Income for the 13 and 39-weeks ended July 2, 2016 as a reduction of Occupancy Expenses.

### **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 condensed 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 consolidated condensed financial statements include allowances for potential bad debts on accounts and notes receivable, leases, the useful lives and recoverability of its assets, such as property and intangibles, fair values of financial instruments, the realizable value of its tax assets and other matters. Management bases its estimates on certain assumptions, which it believes are reasonable in the circumstances, and 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 consolidated condensed financial statements.

The Company’s critical accounting policies are described in the Company’s Form 10-K for the year ended October 3, 2015. There have been no significant changes to such policies during fiscal 2016 other than those disclosed in Note 1 to the Consolidated Condensed Financial Statements.

### **Recently Adopted and Issued Accounting Standards**

See Note 1 to the Consolidated Condensed Financial Statements for a description of recent accounting pronouncements, including those adopted in fiscal 2016 and the expected dates of adoption and the anticipated impact on the Consolidated Condensed Financial Statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company purchases commodities such as chicken, beef, lobster, crabs and shrimp for the Company’s restaurants. The prices of these commodities may be volatile depending upon market conditions. The Company does

not purchase forward commodity contracts because the changes in prices for these items have historically been short-term in nature and, in the Company's view, the cost of the contracts is in excess of the benefits.

The Company's business is also highly seasonal and dependent on the weather. Outdoor seating capacity, such as terraces and sidewalk cafes, is available for dining only in the warm seasons and then only in inclement weather.

#### Item 4. Controls and Procedures

##### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of July 2, 2016 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

##### *Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Limitations of the Effectiveness of Internal Control*

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

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## **PART II**

### **OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

The Company is not subject to pending legal proceedings, other than ordinary claims incidental to its business, which the Company does not believe will materially impact results of operations.

#### **Item 1A. Risk Factors**

The most significant risk factors applicable to the Company are described in Part I, Item 1A (Risk Factors) of the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2015 (the "2015 Form 10-K"). There have been no material changes to the risk factors previously disclosed in the 2015 Form 10-K. The risks described in the 2015 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to management may materially adversely affect the Company's business, financial condition, and/or operating results.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

#### **Item 3. Defaults upon Senior Securities**

None.

#### **Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. 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 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\*Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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**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 16, 2016

**ARK  
RESTAURANTS  
CORP.**

By: /s/ Michael Weinstein  
Michael Weinstein  
Chairman & Chief  
Executive Officer  
(Principal Executive  
Officer)

By: /s/ Robert J. Stewart  
Robert J. Stewart  
President and Chief  
Financial Officer  
(Authorized Signatory  
and Principal  
Financial and  
Accounting Officer)

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