

ARK RESTAURANTS CORP  
Form 10-Q  
February 11, 2014  
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 AND EXCHANGE ACT OF 1934

For the quarterly period ended December 28, 2013

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

Yes S 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 S 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 S

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

Yes £ No S

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 February 6, 2014 |
|---------------------------------|--|
| (Common stock, \$.01 par value) | 3,257,395                              |

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 September 28, 2013 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-Q 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-Q 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.

- 2 -

**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)

|   | December<br>28,<br>2013 | September<br>28,<br>2013 |
|---|-------------------------|--------------------------|
| <b>ASSETS</b>   |                         |                          |
| <b>CURRENT ASSETS:</b>  |                         |                          |
| Cash and cash equivalents (includes \$634 at December 28, 2013 and \$637 at September 28, 2013 related to VIEs)                   | \$ 7,460                | \$ 8,748                 |
| Accounts receivable (includes \$338 at December 28, 2013 and \$317 at September 28, 2013 related to VIEs)                         | 2,063                   | 2,712                    |
| Employee receivables  | 455                     | 346                      |
| Inventories (includes \$16 at December 28, 2013 and September 28, 2013 related to VIEs)   | 1,611                   | 1,579                    |
| Prepaid and refundable income taxes (includes \$163 at December 28, 2013 and September 28, 2013 related to VIEs)                  | 208                     | 567                      |
| Prepaid expenses and other current assets (includes \$12 at December 28, 2013 and \$13 at September 28, 2013 related to VIEs)     | 1,069                   | 1,038                    |
| Current portion of note receivable  | 217                     | 226                      |
| Total current assets  | 13,083                  | 15,216                   |
| FIXED ASSETS - Net (includes \$77 at December 28, 2013 and \$89 at September 28, 2013 related to VIEs)                            | 24,654                  | 25,017                   |
| NOTE RECEIVABLE, LESS CURRENT PORTION   | 745                     | 774                      |
| INTANGIBLE ASSETS - Net   | 11                      | 13                       |
| GOODWILL  | 4,813                   | 4,813                    |
| TRADEMARKS  | 721                     | 721                      |
| DEFERRED INCOME TAXES   | 4,808                   | 4,806                    |
| OTHER ASSETS (includes \$71 at December 28, 2013 and September 28, 2013 related to VIEs)  | 6,068                   | 5,098                    |
| <b>TOTAL ASSETS</b>   | <b>\$ 54,903</b>        | <b>\$ 56,458</b>         |
| <b>LIABILITIES AND EQUITY</b>   |                         |                          |
| <b>CURRENT LIABILITIES:</b>   |                         |                          |
| Accounts payable - trade (includes \$61 at December 28, 2013 and \$70 at September 28, 2013 related to VIEs)                      | \$ 1,869                | \$ 2,758                 |
| Accrued expenses and other current liabilities (includes \$368 at December 28, 2013 and \$140 at September 28, 2013 related VIEs) | 9,300                   | 9,275                    |
| Dividend payable  | 814                     | 814                      |
| Current portion of notes payable  | 1,974                   | 2,063                    |
| Total current liabilities   | 13,957                  | 14,910                   |

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| OPERATING LEASE DEFERRED CREDIT (includes \$60 at December 28, 2013 related to VIEs)  | 4,509     | 4,606     |
| NOTES PAYABLE, LESS CURRENT PORTION   | 1,167     | 1,594     |
| TOTAL LIABILITIES   | 19,633    | 21,110    |
| COMMITMENTS AND CONTINGENCIES   |           |           |
| EQUITY:   |           |           |
| Common stock, par value \$.01 per share - authorized, 10,000 shares; issued, 4,613 shares at at December 28, 2013 and 4,610 shares at September 28, 2013; outstanding, 3,257 shares at December 28, 2013 and 3,254 shares at September 28, 2013 | 46        | 46        |
| Additional paid-in capital  | 23,104    | 22,978    |
| Retained earnings   | 22,699    | 22,950    |
|   | 45,849    | 45,974    |
| Less treasury stock, at cost, of 1,356 shares at December 28, 2013 and September 28, 2013   | (13,220 ) | (13,220 ) |
| Total Ark Restaurants Corp. shareholders' equity  | 32,629    | 32,754    |
| NON-CONTROLLING INTERESTS   | 2,641     | 2,594     |
| TOTAL EQUITY  | 35,270    | 35,348    |
| TOTAL LIABILITIES AND EQUITY  | \$ 54,903 | \$ 56,458 |

See notes to consolidated condensed financial statements.

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

(In Thousands, Except Per Share Amounts)

|  | 13 Weeks Ended    |                   |
|--|-------------------|-------------------|
|  | December 28, 2013 | December 29, 2012 |
| <b>REVENUES:</b>   |                   |                   |
| Food and beverage sales                                      | \$31,756          | \$ 31,029         |
| Other revenue  | 382               | 307               |
| Total revenues   | 32,138            | 31,336            |
| <b>COSTS AND EXPENSES:</b>                                   |                   |                   |
| Food and beverage cost of sales                              | 7,854             | 7,749             |
| Payroll expenses   | 10,478            | 10,845            |
| Occupancy expenses   | 4,401             | 4,535             |
| Other operating costs and expenses                           | 4,207             | 4,339             |
| General and administrative expenses                          | 2,850             | 2,410             |
| Depreciation and amortization                                | 1,147             | 1,176             |
| Total costs and expenses                                     | 30,937            | 31,054            |
| <b>OPERATING INCOME</b>                                      | 1,201             | 282               |
| <b>OTHER (INCOME) EXPENSE:</b>                               |                   |                   |
| Interest expense   | 19                | —                 |
| Interest income  | (7 )              | —                 |
| Other income, net  | (66 )             | (79 )             |
| Total other income, net                                      | (54 )             | (79 )             |
| <b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>              | 1,255             | 361               |
| Provision for income taxes                                   | 399               | 114               |
| <b>CONSOLIDATED NET INCOME</b>                               | 856               | 247               |
| Net income attributable to non-controlling interests         | (293 )            | (239 )            |
| <b>NET INCOME ATTRIBUTABLE TO ARK RESTAURANTS CORP.</b>      | <b>\$563</b>      | <b>\$ 8</b>       |
| <b>NET INCOME PER ARK RESTAURANTS CORP. COMMON SHARE:</b>    |                   |                   |
| Basic  | \$0.17            | \$ 0.00           |
| Diluted  | \$0.17            | \$ 0.00           |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b> |                   |                   |
| Basic  | 3,256             | 3,245             |
| Diluted  | 3,400             | 3,322             |

See notes to consolidated condensed financial statements.

**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN EQUITY****FOR THE 13 WEEKS ENDED DECEMBER 28, 2013 AND DECEMBER 29, 2012**

(In Thousands)

|  | Common<br>Stock | Additional<br>Paid-In | Retained<br>Earnings | Treasury<br>Stock | Total Ark<br>Restaurants<br>Corp.<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interests | Total<br>Equity |           |
|--|-----------------|-----------------------|----------------------|-------------------|--|----------------------------------|-----------------|-----------|
|  | Shares          | Amount                | Capital              |                   |  |                                  |                 |           |
| BALANCE - September 29,<br>2012                              | 4,601           | \$ 46                 | \$ 23,410            | \$ 22,372         | \$(13,220)   | \$ 32,608                        | \$ 4,179        | \$ 36,787 |
| Net income   | —               | —                     | —                    | 8                 | —  | 8                                | 239             | 247       |
| Purchase of member interests<br>in subsidiary                | —               | —                     | (2,685 )             | —                 | —  | (2,685 )                         | (280 )          | (2,965 )  |
| Tax benefit of purchase of<br>member interests in subsidiary | —               | —                     | 1,020                | —                 | —  | 1,020                            | —               | 1,020     |
| Stock-based compensation                                     | —               | —                     | 80                   | —                 | —  | 80                               | —               | 80        |
| Distributions to non-controlling<br>interests                | —               | —                     | —                    | —                 | —  | —                                | (600 )          | (600 )    |
| Payment of dividends - \$0.25<br>per share                   | —               | —                     | —                    | (811 )            | —  | (811 )                           | —               | (811 )    |
| BALANCE - December 29,<br>2012                               | 4,601           | \$ 46                 | \$ 21,825            | \$ 21,569         | \$(13,220)   | \$ 30,220                        | \$ 3,538        | \$ 33,758 |
| BALANCE - September 28,<br>2013                              | 4,610           | \$ 46                 | \$ 22,978            | \$ 22,950         | \$(13,220)   | \$ 32,754                        | \$ 2,594        | \$ 35,348 |
| Net income   | —               | —                     | —                    | 563               | —  | 563                              | 293             | 856       |
| Exercise of stock options                                    | 3               | —                     | 38                   | —                 | —  | 38                               | —               | 38        |
| Tax benefit on exercise of<br>stock options                  | —               | —                     | 8                    | —                 | —  | 8                                | —               | 8         |
| Stock-based compensation                                     | —               | —                     | 80                   | —                 | —  | 80                               | —               | 80        |
| Distributions to non-controlling<br>interests                | —               | —                     | —                    | —                 | —  | —                                | (246 )          | (246 )    |
| Payment of dividends - \$0.25<br>per share                   | —               | —                     | —                    | (814 )            | —  | (814 )                           | —               | (814 )    |
| BALANCE - December 28,<br>2013                               | 4,613           | \$ 46                 | \$ 23,104            | \$ 22,699         | \$(13,220)   | \$ 32,629                        | \$ 2,641        | \$ 35,270 |

See notes to consolidated condensed financial statements.





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

(In Thousands)

|  | 13 Weeks Ended    |                   |
|--|-------------------|-------------------|
|  | December 28, 2013 | December 29, 2012 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                   |
| Consolidated net income  | \$ 856            | \$ 247            |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |                   |                   |
| Loss on closure of restaurants   | —                 | 256               |
| Deferred income taxes  | (2 )              | —                 |
| Stock-based compensation   | 80                | 80                |
| Depreciation and amortization  | 1,147             | 1,176             |
| Operating lease deferred credit  | (97 )             | (85 )             |
| Changes in operating assets and liabilities:   |                   |                   |
| Accounts receivable  | 649               | 1,143             |
| Inventories  | (32 )             | (62 )             |
| Prepaid, refundable and accrued income taxes   | 359               | 127               |
| Prepaid expenses and other current assets  | (31 )             | 185               |
| Other assets   | (6 )              | —                 |
| Accounts payable - trade   | (889 )            | (423 )            |
| Accrued expenses and other liabilities   | 25                | (1,140 )          |
| Net cash provided by operating activities  | 2,059             | 1,504             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                   |
| Purchases of fixed assets  | (782 )            | (409 )            |
| Loans and advances made to employees   | (151 )            | (35 )             |
| Payments received on employee receivables  | 42                | 35                |
| Payments received on note receivable   | 38                | —                 |
| Purchase of member interests in subsidiary   | —                 | (2,965 )          |
| Purchase of member interest in New Meadowlands Racetrack LLC                                   | (464 )            | —                 |
| Initial payment on purchase of The Rustic Inn  | (500 )            | —                 |
| Net cash used in investing activities  | (1,817)           | (3,374 )          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                   |                   |
| Principal payments on notes payable  | (516 )            | (88 )             |
| Dividends paid   | (814 )            | (811 )            |
| Proceeds from issuance of stock upon exercise of stock options                                 | 38                | —                 |
| Excess tax benefits related to stock-based compensation  | 8                 | —                 |
| Distributions to non-controlling interests   | (246 )            | (600 )            |
| Net cash used in financing activities  | (1,530)           | (1,499 )          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(1,288)</b>    | <b>(3,369 )</b>   |
| <b>CASH AND CASH EQUIVALENTS, Beginning of period</b>  | <b>8,748</b>      | <b>8,705</b>      |
| <b>CASH AND CASH EQUIVALENTS, End of period</b>  | <b>\$ 7,460</b>   | <b>\$ 5,336</b>   |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

|   |       |          |
|---|-------|----------|
| Interest  | \$19  | \$ —     |
| Income taxes  | \$34  | \$ 51    |
| Non-cash investing activity:                              |       |          |
| Tax benefit of purchase of member interests in subsidiary | \$—   | \$ 1,020 |
| Non-cash financing activity:                              |       |          |
| Accrued dividend  | \$814 | \$ —     |

See notes to consolidated condensed financial statements.

- 6 -

**ARK RESTAURANTS CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

December 28, 2013

(Unaudited)

**1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The consolidated and condensed balance sheet as of September 28, 2013, which has been derived from audited financial statements included in the Form 10-K, and the unaudited interim consolidated and 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”). 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. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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 September 28, 2013. 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.

**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. 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 balance sheet date and approximates the carrying value of such debt.

**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. 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-week period ended December 28, 2013, the Company made purchases from one vendor that accounted for approximately 12% of total purchases. For the 13-week period ended December 29, 2012, the Company made purchases from two vendors that accounted for approximately 22% of total purchases.

**SEGMENT REPORTING** — As of December 28, 2013, the Company owned and operated 20 restaurants and bars, 22 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 December 2011, the Financial Accounting Standards Board (the "FASB") issued amended standards to increase the prominence of offsetting assets and liabilities reported in financial statements. These amendments require an entity to disclose information about offsetting and the related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. These revised standards became effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods and are to be retrospectively applied. The adoption of this guidance did not have a material impact on the Company's consolidated condensed financial statements.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED** — In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. This guidance is effective for fiscal years ending after December 15, 2014 and is required to be applied retrospectively to all prior periods presented for those obligations that existed upon adoption. The Company does not expect the adoption this guidance to have a significant impact on its consolidated financial condition or results of operations.

In July 2013, the FASB issued new accounting guidance which requires entities to present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent the net operating loss carryforwards or tax credit carryforwards are not available to be used at the reporting date to settle additional income taxes, and the entity does not intend to use them for this purpose. The new accounting guidance is consistent with how the Company has historically accounted for unrecognized tax benefits, therefore the Company does not expect the adoption of this guidance to have a significant impact on its consolidated 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:

|                           | December       | September |
|---------------------------|----------------|-----------|
|                           | 28,            | 28,       |
|                           | 2013           | 2013      |
|                           | (in thousands) |           |
| Cash and cash equivalents | \$634          | \$ 637    |
| Accounts receivable       | 338            | 317       |

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

|   |         |          |
|---|---------|----------|
| Inventories                                       | 16      | 16       |
| Prepaid income taxes                              | 163     | 163      |
| Prepaid expenses and other current assets         | 12      | 13       |
| Due from Ark Restaurants Corp. and affiliates (1) | 160     | 157      |
| Fixed assets, net                                 | 77      | 89       |
| Other long-term assets                            | 71      | 71       |
| Total assets                                      | \$1,471 | \$ 1,463 |
| Accounts payable                                  | \$61    | \$ 70    |
| Accrued expenses and other liabilities            | 368     | 140      |
| Operating lease deferred credit                   | 60      | —        |
| Total liabilities                                 | 489     | 210      |
| Equity of variable interest entities              | 982     | 1,253    |
| Total liabilities and equity                      | \$1,471 | \$ 1,463 |

(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 our 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 our general assets.

- 8 -

### **3. RECENT RESTAURANT EXPANSION**

On November 28, 2012, a subsidiary of the Company entered into an agreement to design and lease a restaurant at the Tropicana Hotel and Casino in Atlantic City, NJ. The cost to construct this restaurant was approximately \$1,750,000. The initial term of the lease for this facility expires June 7, 2023 and has two five-year renewals. The restaurant, *Broadway Burger Bar*, opened during the third quarter of fiscal 2013.

### **4. RECENT RESTAURANT DISPOSITIONS**

On October 29, 2012, the Company suffered a flood at its *Red* and *Sequoia* properties located in New York, NY as a result of a hurricane. The Company did not reopen these properties as the underlying leases were due to expire in the second quarter of fiscal 2013. Losses related to the closure of these properties, in the amount of \$256,000, are included in Other Operating Costs and Expenses in the Consolidated Condensed Statement of Income for the 13-weeks ended December 29, 2012.

### **5. NOTE RECEIVABLE**

On June 7, 2011, the Company entered into a 10-year exclusive agreement to manage a yet to be constructed restaurant and catering service at *Basketball City* in New York City in exchange for a fee of \$1,000,000. Under the terms of the agreement the owner of the property was to construct the facility at their expense and the Company was to pay the owner an annual fee based on sales, as defined in the agreement. Since the owner had not delivered the facility to the Company within the specified timeframe, the parties executed a promissory note for repayment of the \$1,000,000 exclusivity fee. The note bears interest at 4.0% per annum and is payable in 48 equal monthly installments of \$22,579, which commenced on December 1, 2013.

### **6. 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%. This investment has been accounted for based on the cost method and is included in Other Assets in the accompanying Consolidated Condensed Balance Sheets at December 28, 2013 and September 28, 2013. 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 December 28, 2013.



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 to provide food and beverage management services for the new racing facilities constructed at the Meadowlands Racetrack in northern New Jersey. Despite the ownership percentage the company only participates in 5% of the profits and has no capital at risk. At December 28, 2013, it was determined that this entity 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.

Our maximum exposure to loss as a result of our involvement with AM VIE is limited to our receivable from AM VIE’s primary beneficiary (NMR, a related party) which aggregated approximately \$321,000 at December 28, 2013 and is included in Prepaid Expenses and Other Current Assets in the Consolidated Condensed Balance Sheet.

## 7. NOTES PAYABLE

**Treasury Stock Repurchase** – On December 12, 2011, the Company, in a private transaction, purchased 250,000 shares of its common stock at a price of \$12.50 per share, or a total of \$3,125,000. Upon the closing of the purchase, the Company paid the seller \$1,000,000 in cash and issued an unsecured promissory note to the seller for \$2,125,000. The note bears interest at 0.19% per annum, and is payable in 24 equal monthly installments of \$88,541, commencing on December 1, 2012. As of December 28, 2013, the outstanding note payable balance was approximately \$974,000.

**Bank** – On February 25, 2013, the Company issued a promissory note, secured by all assets of the Company, to a bank for \$3,000,000. The note bears interest at LIBOR plus 3.0% per annum, and is payable in 36 equal monthly installments of \$83,333, commencing on March 25, 2013. As of December 28, 2013, the outstanding balance of this note payable was approximately \$2,167,000. The agreement provides, among other things, that the Company meet minimum quarterly tangible net worth amounts, as defined, and minimum annual net income amounts, and contains customary representations, warranties and affirmative covenants. The agreement also contains 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 December 28, 2013.

**8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

|  | December<br>28,<br>2013 | September<br>28,<br>2013 |
|--|-------------------------|--------------------------|
|  | (In thousands)          |                          |
| Sales tax payable  | \$1,156                 | \$ 783                   |
| Accrued wages and payroll related costs                    | 1,205                   | 1,435                    |
| Customer advance deposits                                  | 2,759                   | 3,356                    |
| Accrued occupancy, gift cards and other operating expenses | 4,180                   | 3,701                    |
|  | \$9,300                 | \$ 9,275                 |

**9. 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 restaurants sales in excess of stipulated amounts at such facility and in one instance based on profits.

**Legal Proceedings** — In the ordinary course of its business, the Company is a party to various lawsuits arising from accidents at its restaurants and worker's compensation claims, which are generally handled by the Company's insurance carriers. The employment by the Company of management personnel, waiters, waitresses and kitchen staff at a number of different restaurants has resulted in the institution, from time to time, of litigation alleging violation by the Company of employment discrimination laws. 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.

**Other** — On November 22, 2013, the Company, through a wholly-owned subsidiary, Ark Rustic Inn LLC, entered into an Asset Purchase Agreement with W and O, Inc. to purchase the Rustic Inn Crab House, a restaurant and bar in Dania Beach, Florida, for \$7,500,000 plus inventory. The acquisition is scheduled to close on or before February 28, 2014, subject to satisfactory completion of due diligence, execution of employment and non-competition agreements, Florida Liquor Authority approval and customary closing conditions. In connection with the signing of this agreement the Company made an initial deposit toward the purchase in the amount of \$500,000 which is included in Other Assets in the Consolidated Condensed Balance Sheet at December 28, 2013. The balance of the purchase price is expected to be financed with bank borrowings.

## 10. 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.

The 2010 Stock Option Plan is the Company’s only equity compensation plan currently in effect. Under the 2010 Stock Option 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. No options were issued during the 13-week period ended December 28, 2013.

- 10 -

A summary of stock option activity is presented below:

|   | 2014     | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|----------|--|--|---------------------------------|
|   | Shares   |  |  |                                 |
| Outstanding, beginning of period              | 623,100  | \$ 19.56                                 | 5.50 Years                                 |                                 |
| Options:                                      |          |  |  |                                 |
| Granted                                       | —        |  |  |                                 |
| Exercised                                     | (3,000 ) | \$ 12.83                                 |  |                                 |
| Canceled or expired                           | —        |  |  |                                 |
| Outstanding and expected to vest, end of year | 620,100  | \$ 19.73                                 | 5.25 Years                                 | \$3,545,220                     |
| Exercisable, end of year                      | 501,450  | \$ 20.95                                 | 4.50 Years                                 | \$2,587,715                     |

Compensation cost charged to operations for both 13-week periods ended December 28, 2013 and December 29, 2012 was \$80,000. The compensation cost recognized is classified as a general and administrative expense in the Consolidated Condensed Statements of Income.

As of December 28, 2013, there was approximately \$142,000 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a period of approximately six months.

## 11. 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. The income tax provision on income from continuing operations for the 13-week periods ended December 28, 2013 and December 29, 2012 reflect effective tax rates of approximately 32%. 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 inclusion of 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.

## 12. 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-week period ended December 28, 2013, options to purchase 156,300 shares of common stock at an exercise price of \$12.04 per share and options to purchase 237,300 shares of common stock at an exercise price \$14.40 per share were included in diluted earnings per share. Options to purchase 136,500 shares of common stock at an exercise price of \$29.60 per share and options to purchase 90,000 shares of common stock at an exercise price of \$32.15 per share were not included in diluted earnings per share as their impact was anti-dilutive.

For the 13-week period ended December 29, 2012, options to purchase 165,100 shares of common stock at a price of \$12.04 and options to purchase 245,500 shares of common stock at a price of \$14.40 were included in diluted earnings per share. Options to purchase 139,000 shares of common stock at a price of \$29.60 and options to purchase 90,000 shares of common stock at a price of \$32.15 per share were not included in diluted earnings per share as their impact was antidilutive.

### 13. DIVIDENDS

On December 4, 2013, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on December 30, 2013 to shareholders of record at the close of business on December 16, 2013. 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.

### 14. SUBSEQUENT EVENTS

On January 31, 2014, the Company, through a wholly-owned subsidiary, Ark Jupiter RI, LLC, entered into an agreement with Crab House, Inc., to purchase the assets of a restaurant and bar in Jupiter, Florida for \$250,000, of which a \$50,000 initial deposit was made. The purchase is subject to, among other things, the landlord's consent to the assignment and assumption of the lease and execution and delivery of an amendment to the lease which is satisfactory to Ark.

- 12 -

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

**Overview**

As of December 28, 2013, the Company owned and operated 20 restaurants and bars, 22 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.

*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 December 28, 2013 and December 29, 2012 included 13 weeks.

*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.

*Results of Operations*

The Company's operating income was \$1,201,000 for the 13 weeks ended December 28, 2013 as compared to operating income of \$282,000 for the 13 weeks ended December 29, 2012. This increase resulted from a combination of factors including: (i) strong catering revenues in New York, (ii) significant improvement in the performance of *Clyde Frazier's Wine and Dine*, (iii) the negative effects of Hurricane Sandy in the prior period on our businesses located in New York, Atlantic City, NJ and Washington, DC, all partially offset by increased competition and a decrease in the usage of complimentary by the ownership of the casinos at our Florida properties and the negative impact of additional room capacity without a corresponding increase in overall traffic in Las Vegas.

Edgar Filing: ARK RESTAURANTS CORP - Form 10-Q

The following table summarizes the significant components of the Company's operating results for the 13-week periods ended December 28, 2013 and December 29, 2012, respectively:

|                                     | 13 Weeks Ended    |                   | Variance     |               |
|-------------------------------------|-------------------|-------------------|--------------|---------------|
|                                     | December 28, 2013 | December 29, 2012 | \$           | %             |
|                                     | (in thousands)    |                   |              |               |
| <b>REVENUES:</b>                    |                   |                   |              |               |
| Food and beverage sales             | \$31,756          | \$ 31,029         | \$727        | 2.3 %         |
| Other revenue                       | 382               | 307               | 75           | 24.4 %        |
| Total revenues                      | 32,138            | 31,336            | 802          | 2.6 %         |
| <b>COSTS AND EXPENSES:</b>          |                   |                   |              |               |
| Food and beverage cost of sales     | 7,854             | 7,749             | 105          | 1.4 %         |
| Payroll expenses                    | 10,478            | 10,845            | (367)        | -3.4 %        |
| Occupancy expenses                  | 4,401             | 4,535             | (134)        | -3.0 %        |
| Other operating costs and expenses  | 4,207             | 4,339             | (132)        | -3.0 %        |
| General and administrative expenses | 2,850             | 2,410             | 440          | 18.3 %        |
| Depreciation and amortization       | 1,147             | 1,176             | (29 )        | -2.5 %        |
| Total costs and expenses            | 30,937            | 31,054            | (117)        | -0.4 %        |
| <b>OPERATING INCOME</b>             | <b>\$ 1,201</b>   | <b>\$ 282</b>     | <b>\$919</b> | <b>325.9%</b> |

- 13 -



## Revenues

During the Company's 13-week period ended December 28, 2013, revenues increased 2.6% as compared to revenues in the 13-week period ended December 29, 2012. This increase resulted primarily from: (i) strong catering revenues in New York, (ii) revenues related to our new restaurant in Atlantic City, NJ, *Broadway Burger Bar and Grill*, which opened in June 2013, and (iii) the negative impacts of Hurricane Sandy in the prior period, particularly at our properties in Atlantic City, NJ partially offset by increased competition and a decrease in the usage of complimentary by the ownership of the casinos at our Florida properties and the negative impact of additional room capacity without a corresponding increase in overall traffic in Las Vegas.

### Food and Beverage Same-Store Sales

On a Company-wide basis, same-store sales increased 1.8% during the first fiscal quarter of 2014 compared to the same period last year as follows:

|                         | 13 Weeks Ended    |                   | Variance |         |
|-------------------------|-------------------|-------------------|----------|---------|
|                         | December 28, 2013 | December 29, 2012 | \$       | %       |
|                         | (in thousands)    |                   |          |         |
| Las Vegas               | \$13,028          | \$13,497          | \$(469)  | -3.5 %  |
| New York                | 9,216             | 7,959             | 1,257    | 15.8 %  |
| Washington, DC          | 3,128             | 3,137             | (9)      | -0.3 %  |
| Atlantic City, NJ       | 711               | 538               | 173      | 32.2 %  |
| Boston                  | 964               | 960               | 4        | 0.4 %   |
| Connecticut             | 860               | 876               | (16)     | -1.8 %  |
| Florida                 | 2,969             | 3,357             | (388)    | -11.6 % |
| Same-store sales        | 30,876            | 30,324            | \$552    | 1.8 %   |
| Other                   | 880               | 705               |          |         |
| Food and beverage sales | \$31,756          | \$31,029          |          |         |

Same-store sales in Las Vegas decreased 3.5% primarily as a result of the negative impact of additional room capacity without a corresponding increase in overall traffic. Same-store sales in New York (which exclude the *Red* and *Sequoia* properties as they were closed in October 2012) increased 15.8% as a result of strong catering revenues. Same-store sales in Washington, DC were flat as expected. Same-store sales in Atlantic City increased 32.2% due to the negative impacts of Hurricane Sandy in the prior period. Same-store sales in Boston were flat as expected. Same-store sales in Connecticut decreased 1.8% due to declining traffic at the Foxwoods Resort and Casino where our properties are located. Same-store sales in Florida decreased 11.6% due to increased competition at one of our properties combined with a decrease in the usage of complimentary by the ownership of the casinos where our properties are located. Other food and beverage sales consist of sales related to new restaurants opened during the applicable period and sales related to properties that were closed during the period due to lease expiration and other closures and therefore not

included in discontinued operations.

### Costs and Expenses

Costs and expenses from continuing operations for the 13 weeks ended December 28, 2013 and December 29, 2012 were as follows (in thousands):

|                                     | 13 Weeks<br>Ended<br>December<br>28,<br>2013 | %<br>to Total<br>Revenues | % | 13 Weeks<br>Ended<br>December<br>29,<br>2012 | %<br>to Total<br>Revenues | % | Increase<br>(Decrease)<br>\$ | %      |
|-------------------------------------|--|---------------------------|---|--|---------------------------|---|------------------------------|--------|
| Food and beverage cost of sales     | \$ 7,854                                     | 24.4                      | % | \$ 7,749                                     | 24.7                      | % | \$ 105                       | 1.4 %  |
| Payroll expenses                    | 10,478                                       | 32.6                      | % | 10,845                                       | 34.6                      | % | (367)                        | -3.4 % |
| Occupancy expenses                  | 4,401  | 13.7                      | % | 4,535  | 14.5                      | % | (134)                        | -3.0 % |
| Other operating costs and expenses  | 4,207  | 13.1                      | % | 4,339  | 13.8                      | % | (132)                        | -3.0 % |
| General and administrative expenses | 2,850  | 8.9                       | % | 2,410  | 7.7                       | % | 440                          | 18.3 % |
| Depreciation and amortization       | 1,147  | 3.6                       | % | 1,176  | 3.8                       | % | (29 )                        | -2.5 % |
|                                     | \$ 30,937                                    |                           |   | \$ 31,054                                    |                           |   | \$(117)                      |        |

- 14 -

Food and beverage costs as a percentage of total revenues for the 13 weeks ended December 28, 2013 decreased slightly compared to the same period of fiscal 2013 and reflect improved menu costing partially offset by higher commodity prices.

Payroll expenses as a percentage of total revenues for the 13 weeks ended December 28, 2013 decreased as compared to the same period of fiscal 2013 due primarily to severance payments to employees of closed properties in the prior period.

Occupancy expenses as a percentage of total revenues for the 13 weeks ended December 28, 2013 decreased as compared to the same period of fiscal 2013 as a result of higher sales at properties where rents are relatively fixed.

Other operating costs and expenses for the 13 weeks ended December 28, 2013 decreased as compared to the same period of fiscal 2013 primarily as the result of closure losses related to the two properties in New York as a result of Hurricane Sandy.

General and administrative expenses (which relate solely to the corporate office in New York City) for the 13 weeks ended December 28, 2013 increased compared to the same period of fiscal 2013 primarily as a result of increased salaries and benefits and professional fees.

## **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. The income tax provision on income from continuing operations for the 13-week periods ended December 28, 2013 and December 29, 2012 reflect effective tax rates of approximately 32%. The Company expects its effective tax rate for its current fiscal year to be lower than the statutory rate as a result of the inclusion of 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 level of losses incurred at the Company's New York facilities, which cannot be consolidated for state and local tax purposes, pre-tax income earned outside of New York City, the utilization of state and local net operating loss 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.

## 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 used in investing activities for the 13-week period ended December 28, 2013 was \$1,817,000 and resulted primarily from purchases of fixed assets at existing restaurants, an additional \$464,000 investment in New Meadowlands Racetrack LLC and an initial payment of \$500,000 related to our to be closed purchase of The Rustic Inn.

Net cash used in investing activities for the 13-week period ended December 29, 2012 was \$3,374,000 and resulted primarily from purchases of fixed assets at existing restaurants and the purchase of the Florida membership interests.

Net cash used in financing activities for the 13-week period ended December 28, 2013 of \$1,530,000 resulted from the payment of dividends, principal payments on notes payable and distributions to non-controlling interests.

Net cash used in financing activities for the 13-week period ended December 29, 2012 of \$1,499,000 was principally used for the payment of dividends and distributions to non-controlling interests.

The Company had a working capital deficiency of \$874,000 at December 28, 2013, as compared to a working capital surplus of \$306,000 at September 28, 2013. This resulted primarily from our additional investment in New Meadowlands Racetrack LLC and initial payment of \$500,000 related to our to be closed purchase of The Rustic Inn. 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 December 4, 2013, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on December 30, 2013 to shareholders of record at the close of business on December 16, 2013. 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.

On November 22, 2013, the Company, through a wholly-owned subsidiary, Ark Rustic Inn LLC, entered into an Asset Purchase Agreement with W and O, Inc. to purchase the Rustic Inn Crab House, a restaurant and bar in Dania Beach, Florida, for \$7,500,000 plus inventory. The acquisition is scheduled to close on or before February 28, 2014, subject to satisfactory completion of due diligence, execution of employment and non-competition agreements, Florida Liquor Authority approval and customary closing conditions. In connection with the signing of this agreement the Company made an initial deposit toward the purchase in the amount of \$500,000 which is included in Other Assets in the Consolidated Condensed Balance Sheet at December 28, 2013. The balance of the purchase price is expected to be financed with bank borrowings.

### **Recent Restaurant Expansion**

On November 28, 2012, a subsidiary of the Company entered into an agreement to design and lease a restaurant at the Tropicana Hotel and Casino in Atlantic City, NJ. The cost to construct this restaurant was approximately \$1,750,000. The initial term of the lease for this facility expires June 7, 2023 and has two five-year renewals. The restaurant, *Broadway Burger Bar*, opened during the third quarter of fiscal 2013 and, as a result, the Consolidated Statement of Income for the 39-weeks ended June 29, 2013 includes approximately \$100,000 of pre-opening and early operating losses related to this property.

### **Recent Restaurant Dispositions**

On October 29, 2012, the Company suffered a flood at its *Red* and *Sequoia* properties located in New York, NY as a result of a hurricane. The Company did not reopen these properties as the underlying leases were due to expire in the second quarter of fiscal 2013. Losses related to the closure of these properties, in the amount of \$256,000, are included in Other Operating Costs and Expenses in the Consolidated Condensed Statement of Income for the 13-weeks ended December 29, 2012.

### **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 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 consolidated condensed financial statements.

The Company's critical accounting policies are described in the Company's Form 10-K for the year ended September 28, 2013. There have been no significant changes to such policies during fiscal 2014 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 2014 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 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, are available for dining only in the warm seasons and then only in clement 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 December 28, 2013 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 first quarter of fiscal 2014 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.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is not subject to other 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 September 28, 2013 (the "2013 Form 10-K"). There have been no material changes to the risk factors previously disclosed in the 2013 Form 10-K. The risks described in the 2013 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.

- 18 -

**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: February 11, 2014

**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)

- 19 -