

FLANIGANS ENTERPRISES INC  
Form 10-Q  
August 16, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended July 2, 2016

OR

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

For the transition period from        to

Commission File Number 1-6836

**FLANIGAN'S ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

59-0877638  
(I.R.S. Employer  
Identification  
Number)

5059 N.E. 18th Avenue, Fort Lauderdale, Florida  
(Address of principal executive offices)

33334  
Zip Code

(954) 377-1961

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant 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 the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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

On August 16, 2016, 1,858,647 shares of Common Stock, \$0.10 par value per share, were outstanding.

**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

**INDEX TO FORM 10-Q**

|  |    |
|--|----|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  | 1  |
| <u>ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>                               | 1  |
| <u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>   | 2  |
| <u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS</u>   | 4  |
| <u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>                                     | 6  |
| <u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>                                | 8  |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 12 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>                           | 23 |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>   | 24 |
| <b><u>PART II. OTHER INFORMATION</u></b>   | 24 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>   | 24 |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | 24 |
| <u>ITEM 6. EXHIBITS</u>  | 25 |
| <u>SIGNATURES</u>  |    |
| LIST XBRL DOCUMENTS  |    |

*As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," the "Company" and "Flanigan's" mean Flanigan's Enterprises, Inc. and its subsidiaries (unless the context indicates a different meaning).*

Index

**PART I. FINANCIAL INFORMATION**

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1

Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

|   | Thirteen Weeks<br>Ended |                     | Thirty Nine<br>Weeks<br>Ended |                     |
|---|-------------------------|---------------------|-------------------------------|---------------------|
|   | July 2,<br>2016         | June<br>27,<br>2015 | July 2,<br>2016               | June<br>27,<br>2015 |
| <b>REVENUES:</b>  |                         |                     |                               |                     |
| Restaurant food sales   | \$16,764                | \$15,837            | \$49,017                      | \$46,329            |
| Restaurant bar sales  | 5,185                   | 4,794               | 15,572                        | 14,181              |
| Package store sales   | 3,801                   | 3,548               | 12,155                        | 11,672              |
| Franchise related revenues  | 369                     | 393                 | 1,172                         | 1,142               |
| Rental income   | 162                     | 138                 | 428                           | 405                 |
| Owner's fee   | 38                      | 37                  | 113                           | 125                 |
| Other operating income  | 64                      | 49                  | 178                           | 156                 |
|   | 26,383                  | 24,796              | 78,635                        | 74,010              |
| <b>COSTS AND EXPENSES:</b>  |                         |                     |                               |                     |
| Cost of merchandise sold:   |                         |                     |                               |                     |
| Restaurant and lounges  | 7,603                   | 7,397               | 22,543                        | 21,557              |
| Package goods   | 2,736                   | 2,513               | 8,684                         | 8,275               |
| Payroll and related costs   | 8,024                   | 7,521               | 24,064                        | 22,245              |
| Occupancy costs   | 1,356                   | 1,238               | 3,993                         | 3,609               |
| Selling, general and administrative expenses                      | 4,253                   | 4,180               | 13,611                        | 12,698              |
|   | 23,972                  | 22,849              | 72,895                        | 68,384              |
| Income from Operations  | 2,411                   | 1,947               | 5,740                         | 5,626               |
| <b>OTHER INCOME (EXPENSE):</b>                                    |                         |                     |                               |                     |
| Interest expense  | (137 )                  | (150 )              | (421 )                        | (462 )              |
| Interest and other income   | 28                      | 39                  | 65                            | 72                  |
|   | (109 )                  | (111 )              | (356 )                        | (390 )              |
| Income before Provision for Income Taxes                          | 2,302                   | 1,836               | 5,384                         | 5,236               |
| Provision for Income Taxes  | (531 )                  | (445 )              | (1,243 )                      | (1,274 )            |
| Net income before income attributable to noncontrolling interests | 1,771                   | 1,391               | 4,141                         | 3,962               |
| Less: Net income attributable to noncontrolling interests         | (624 )                  | (549 )              | (1,496 )                      | (1,289 )            |

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-Q

|   |         |       |         |         |
|---|---------|-------|---------|---------|
| Net income attributable to stockholders | \$1,147 | \$842 | \$2,645 | \$2,673 |
|---|---------|-------|---------|---------|

See accompanying notes to unaudited condensed consolidated financial statements.

2

Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Continued)

|  | Thirteen Weeks Ended |                  | Thirty Nine Weeks Ended |                  |
|--|----------------------|------------------|-------------------------|------------------|
|  | July 2,<br>2016      | June 27,<br>2015 | July 2,<br>2016         | June 27,<br>2015 |
| Net Income Per Common Share:                                 |                      |                  |                         |                  |
| Basic and Diluted  | \$0.62               | \$0.45           | \$1.42                  | \$1.44           |
| Weighted Average Shares and Equivalent<br>Shares Outstanding |                      |                  |                         |                  |
| Basic and Diluted  | 1,858,647            | 1,858,647        | 1,858,647               | 1,858,647        |

See accompanying notes to unaudited condensed consolidated financial statements.



Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

**JULY 2, 2016 (UNAUDITED) AND OCTOBER 3, 2015**

(in thousands)

**ASSETS**

|                                       | July 2,<br>2016 | October 3, 2015 |
|---------------------------------------|-----------------|-----------------|
| <b>CURRENT ASSETS:</b>                |                 |                 |
| Cash and cash equivalents             | \$9,736         | \$ 9,267        |
| Other receivables                     | 526             | 571             |
| Inventories                           | 2,709           | 2,410           |
| Prepaid expenses                      | 1,397           | 1,094           |
| Deferred tax asset                    | 225             | 375             |
| <br>Total Current Assets              | <br>14,593      | <br>13,717      |
| <br>Property and Equipment, Net       | <br>38,541      | <br>37,578      |
| <br>Investment in Limited Partnership | <br>217         | <br>225         |
| <b>OTHER ASSETS:</b>                  |                 |                 |
| Liquor licenses                       | 630             | 630             |
| Deferred tax asset                    | 870             | 903             |
| Leasehold purchases, net              | 690             | 781             |
| Other                                 | 680             | 788             |
| <br>Total Other Assets                | <br>2,870       | <br>3,102       |
| <br>Total Assets                      | <br>\$56,221    | <br>\$ 54,622   |

See accompanying notes to unaudited condensed consolidated financial statements.



Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

**JULY 2, 2016 (UNAUDITED) AND OCTOBER 3, 2015**

(in thousands)

(Continued)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   | July 2,<br>2016 | October 3, 2015 |
|---|-----------------|-----------------|
| <b>CURRENT LIABILITIES:</b>   |                 |                 |
| Accounts payable and accrued expenses   | \$6,755         | \$ 7,292        |
| Income taxes payable  | 63              | 143             |
| Due to franchisees  | 2,548           | 1,893           |
| Current portion of long term debt   | 1,062           | 1,307           |
| Deferred rent   | 105             | 14              |
| <b>Total Current Liabilities</b>  | <b>10,533</b>   | <b>10,649</b>   |
| Long Term Debt, Net of Current Maturities   | 9,646           | 10,073          |
| Deferred Rent, Net of Current Portion   | —               | 101             |
| Commitments and Contingencies   |                 |                 |
| Equity:   |                 |                 |
| Flanigan's Enterprises, Inc. Stockholders' Equity   |                 |                 |
| Common stock, \$.10 par value, 5,000,000 shares authorized; 4,197,642 shares issued               | 420             | 420             |
| Capital in excess of par value  | 6,240           | 6,240           |
| Retained earnings   | 28,356          | 26,054          |
| Treasury stock, at cost, 2,338,995 shares at July 2, 2016 and 2,338,995 shares at October 3, 2015 | (6,077 )        | (6,077 )        |
| <b>Total Flanigan's Enterprises, Inc. stockholders' equity</b>                                    | <b>28,939</b>   | <b>26,637</b>   |

|                              |          |           |
|------------------------------|----------|-----------|
| Noncontrolling interest      | 7,103    | 7,162     |
| Total equity                 | 36,042   | 33,799    |
| Total liabilities and equity | \$56,221 | \$ 54,622 |

See accompanying notes to unaudited condensed consolidated financial statements.

Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

**FOR THE THIRTY-NINE WEEKS ENDED JULY 2, 2016 AND JUNE 27, 2015**

(in thousands)

July 2, 2016    June 27, 2015

## CASH FLOWS FROM OPERATING ACTIVITIES:

|  |          |   |          |   |
|--|----------|---|----------|---|
| Net income   | \$ 4,141 |   | \$ 3,962 |   |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: |          |   |          |   |
| Depreciation and amortization  | 1,905    |   | 1,909    |   |
| Amortization of leasehold purchases  | 91       |   | 98       |   |
| (Gain)/Loss on abandonment of property and equipment   | 45       |   | 16       |   |
| Deferred income tax  | 183      |   | 89       |   |
| Deferred rent  | (10      | ) | (12      | ) |
| Income from unconsolidated limited partnership   | (17      | ) | (25      | ) |
| Changes in operating assets and liabilities:   |          |   |          |   |
| (increase) decrease in   |          |   |          |   |
| Other receivables  | 45       |   | 136      |   |
| Prepaid income taxes   | —        |   | 142      |   |
| Inventories  | (299     | ) | 166      |   |
| Prepaid expenses   | 611      |   | 1,108    |   |
| Other assets   | 42       |   | 187      |   |
| Increase (decrease) in:  |          |   |          |   |
| Accounts payable and accrued expenses  | (537     | ) | 1,037    |   |
| Income taxes payable   | (80      | ) | 26       |   |
| Due to franchisees   | 655      |   | 740      |   |
| Net cash and cash equivalents provided by operating activities:  | 6,775    |   | 9,579    |   |

## CASH FLOWS FROM INVESTING ACTIVITIES:

|   |        |   |        |   |
|---|--------|---|--------|---|
| Purchase of property and equipment                          | (2,685 | ) | (3,208 | ) |
| Deposit on property and equipment                           | (162   | ) | —      |   |
| Distributions from unconsolidated limited Partnerships      | 25     |   | 30     |   |
| Net cash and cash equivalents used in investing activities: | (2,822 | ) | (3,178 | ) |

See accompanying notes to unaudited condensed consolidated financial statements

Index**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THIRTY-NINE WEEKS ENDED JULY 2, 2016 AND JUNE 27, 2015**

(in thousands)

(Continued)

|   | July 2, 2016 | June 27, 2015 |
|---|--------------|---------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                  |              |               |
| Payment of long term debt                                     | (1,586 )     | (2,510 )      |
| Dividends paid  | (343 )       | (279 )        |
| Purchase of noncontrolling limited partnership Interests      | (10 )        | —             |
| Distributions to limited partnership noncontrolling partners  | (1,545 )     | (1,723 )      |
| Net cash and cash equivalents used in financing activities:   | (3,484 )     | (4,512 )      |
| <br>Net Increase in Cash and Cash Equivalents                 | <br>469      | <br>1,889     |
| Beginning of Period   | 9,267        | 8,099         |
| End of Period   | \$ 9,736     | \$ 9,988      |
| <br><b>Supplemental Disclosure for Cash Flow Information:</b> |              |               |
| Cash paid during period for:                                  |              |               |
| Interest  | \$ 421       | \$ 462        |
| Income taxes  | \$ 1,141     | \$ 1,018      |
| <br><b>Supplemental Disclosure of Non-Cash Investing and</b>  |              |               |
| <b>Financing Activities:</b>                                  |              |               |
| Financing of insurance contracts                              | \$ 914       | \$ 1,201      |
| Purchase deposits transferred to property and equipment       | \$ 228       | \$ 131        |

See accompanying notes to unaudited condensed consolidated financial statements

7

Index

**FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES**

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**JULY 2, 2016**

**(1) BASIS OF PRESENTATION:**

The accompanying condensed consolidated financial information for the periods ended July 2, 2016 and June 27, 2015 are unaudited. Financial information as of October 3, 2015 has been derived from the audited financial statements of the Company, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods indicated have been included. For further information regarding the Company's accounting policies, refer to the Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K for the year ended October 3, 2015. Operating results for interim periods are not necessarily indicative of results to be expected for a full year.

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of the eight limited partnerships in which we act as general partner and have controlling interests. All intercompany balances and transactions have been eliminated. Non-controlling interest represents the limited partners' proportionate share of the net assets and results of operations of the eight limited partnerships.

These condensed consolidated financial statements include estimates relating to performance based officers' bonuses. The estimates are reviewed periodically and the effects of any revisions are reflected in the financial statements in the period they are determined to be necessary. Although these estimates are based on management's knowledge of current events and actions it may take in the future, they may ultimately differ from actual results.

**(2) EARNINGS PER SHARE:**

We follow Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 260 - "*Earnings per Share*". This section provides for the calculation of basic and diluted earnings per share. The data on



Pages 2 and 3 show the amounts used in computing earnings per share and the effects on income and the weighted average number of shares of potentially dilutive common stock equivalents. As of July 2, 2016 and June 27, 2015, no stock options were outstanding.

**(3) RECENT ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:**

**Adopted**

There were no recently adopted accounting pronouncements during the third quarter of our fiscal year 2016 that we believe will have a material impact on our consolidated financial statements.

**Issued**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. We are currently assessing the adoption date and the potential impact of adopting ASU 2016-02 on our financial statements and related disclosures.

Index

**(4) INVESTMENT IN REAL PROPERTY FINANCED BY DEBT:**

During the first quarter of our fiscal year 2016, we purchased the real property and improvements located at 1290 East Commercial Boulevard, Oakland Park, Broward County, Florida (the “1290 Property”) and the vacant real property located at 4990 N.E. 12<sup>th</sup> Avenue, Oakland Park, Broward County, Florida (the “4990 Property”) diagonally adjacent thereto, for a total purchase price of \$922,500. We plan to use the 6,000 square foot building located on the 1290 Property as warehouse space, to store, among other items generators as well as covered parking for our food truck and to use the 4990 Property as a storage yard.

**(5) INCOME TAXES:**

We account for our income taxes using FASB ASC Topic 740, “*Income Taxes*”, which requires among other things, recognition of future tax benefits measured at enacted rates attributable to deductible temporary differences between financial statement and income tax basis of assets and liabilities and to tax net operating loss carryforwards and tax credits to the extent that realization of said tax benefits is more likely than not.

**(6) DEBT:**

***Financed Insurance Premiums***

During the thirty nine weeks ended July 2, 2016, we financed the following three (3) property and general liability insurance policies, totaling approximately \$1.17 million, which property and general liability insurance includes coverage for our franchises of approximately \$256,000 of the amount financed, which are not included in our consolidated financial statements:

(i) For the policy year beginning December 30, 2015, our general liability insurance, excluding limited partnerships, is a one (1) year policy with our insurance carriers, including automobile and excess liability coverage. The one (1) year general liability insurance premiums, including automobile and excess liability coverage, total, in the aggregate \$470,000, of which \$377,000 is financed through an unaffiliated third party lender (the “Third Party Lender”). The finance agreement obligates us to repay the amounts financed together with interest at the rate of 2.95% per annum, over 10 months, with monthly payments of principal and interest, each in the amount of \$38,000. The finance agreement is secured by a security interest in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

(ii) For the policy year beginning December 30, 2015, our general liability insurance for our limited partnerships is a one (1) year policy with our insurance carriers, including excess liability coverage. The one (1) year general liability insurance premiums, including excess liability coverage, total, in the aggregate \$480,000, of which \$385,000 is

financed through the Third Party Lender. The finance agreement obligates us to repay the amounts financed, together with interest at the rate of 2.95% per annum, over 10 months, with monthly payments of principal and interest, each in the amount of \$39,000. The finance agreement is secured by a security agreement in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

(iii) For the policy year beginning December 30, 2015, our property insurance is a one (1) year policy. The one (1) year property insurance premium is in the amount of \$504,000, of which \$404,000 is financed through the Third Party Lender. The finance agreement provides that we are obligated to repay the amounts financed, together with interest at the rate of 2.95% per annum, over 10 months, with monthly payments of principal and interest, each in the amount of approximately \$41,000. The finance agreement is secured by a security interest in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

Index

As of July 2, 2016, the aggregate principal balance owed from the financing of our property and general liability insurance policies is \$458,000.

**(7) COMMITMENTS AND CONTINGENCIES:**

***Construction Contract***

On March 28, 2016, we entered into a construction contract in the amount of \$1,061,000 to build a new building on a parcel of real property which we own which is near the real property where our combination package liquor store and restaurant located at 13205 Biscayne Boulevard, North Miami, Florida, (Store #20) operates. Our intent is to re-locate our package liquor store to the new building and to renovate and expand the restaurant into the former package liquor store space.

***Litigation***

From time to time, we are a defendant in litigation arising in the ordinary course of our business, including claims resulting from “slip and fall” accidents, claims under federal and state laws governing access to public accommodations, employment-related claims and claims from guests alleging illness, injury or other food quality, health or operational concerns. To date, none of this litigation, some of which is covered by insurance, has had a material effect on us.

**(8) SUBSEQUENT EVENTS:**

Subsequent events have been evaluated through the date these condensed consolidated financial statements were issued and no events required disclosure.

**(9) BUSINESS SEGMENTS:**

We operate principally in two reportable segments – package stores and restaurants. The operation of package stores consists of retail liquor sales and related items. Information concerning the revenues and operating income for the thirteen weeks and thirty nine weeks ended July 2, 2016 and June 27, 2015, and identifiable assets for the two reportable segments in which we operate, are shown in the following table, in thousands. Operating income is total revenue less cost of merchandise sold and operating expenses relative to each segment. Identifiable assets by segment are those assets that are used in our operations in each segment. Corporate assets are principally cash and real property, improvements, furniture, equipment and vehicles used at our corporate headquarters. We do not have any operations outside of the United States and transactions between restaurants and package liquor stores are not

material.

10

Index

|   | Thirteen<br>Weeks<br>Ending | Thirteen<br>Weeks<br>Ending |
|---|-----------------------------|-----------------------------|
|   | July 2,<br>2016             | June 27,<br>2015            |
| Operating Revenues:   |                             |                             |
| Restaurants   | \$21,949                    | \$20,631                    |
| Package stores  | 3,801                       | 3,548                       |
| Other revenues  | 633                         | 617                         |
| Total operating revenues  | \$26,383                    | \$24,796                    |
| Income from Operations Reconciled to Income After Income Taxes<br>and Net Income Attributable to Noncontrolling Interests |                             |                             |
| Restaurants   | \$3,599                     | \$2,745                     |
| Package stores  | 210                         | 179                         |
|   | 3,809                       | 2,924                       |
| Corporate expenses, net of other revenues   | (1,398 )                    | (977 )                      |
| Income from Operations  | 2,411                       | 1,947                       |
| Interest expense  | (137 )                      | (150 )                      |
| Interest and other income   | 28                          | 39                          |
| Income Before Income Taxes  | \$2,302                     | \$1,836                     |
| Provision for Income Taxes  | (531 )                      | (445 )                      |
| Net Income  | 1,771                       | 1,391                       |
| Net Income Attributable to Noncontrolling Interests   | (624 )                      | (549 )                      |
| Net Income Attributable to Flanigan's Enterprises, Inc<br>Stockholders  | \$1,147                     | \$842                       |
| Depreciation and Amortization:  |                             |                             |
| Restaurants   | \$515                       | \$491                       |
| Package stores  | 52                          | 50                          |
|   | 567                         | 541                         |
| Corporate   | 185                         | 131                         |
| Total Depreciation and Amortization   | \$752                       | \$672                       |
| Capital Expenditures:   |                             |                             |
| Restaurants   | \$263                       | \$494                       |
| Package stores  | 20                          | 45                          |
|   | 283                         | 539                         |
| Corporate   | 224                         | 34                          |
| Total Capital Expenditures  | \$507                       | \$573                       |

Index

|   | <b>Thirty Nine Weeks<br/>Ending</b> | <b>Thirty Nine Weeks<br/>Ending</b> |
|---|-------------------------------------|-------------------------------------|
|   | <b>July 2, 2016</b>                 | <b>June 27, 2015</b>                |
| Operating Revenues:   |                                     |                                     |
| Restaurants   | \$ 64,589                           | \$ 60,510                           |
| Package stores  | 12,155                              | 11,672                              |
| Other revenues  | 1,891                               | 1,828                               |
| Total operating revenues  | \$ 78,635                           | \$ 74,010                           |
| Income from Operations Reconciled to Income After Income<br>Taxes and Net Income Attributable to Noncontrolling Interests |                                     |                                     |
| Restaurants   | \$ 7,858                            | \$ 6,816                            |
| Package stores  | 736                                 | 868                                 |
|   | 8,594                               | 7,684                               |
| Corporate expenses, net of other revenue  | (2,854)                             | (2,058)                             |
| Income from Operations  | 5,740                               | 5,626                               |
| Interest expense  | (421)                               | (462)                               |
| Interest and other income   | 65                                  | 72                                  |
| Income Before Income Taxes  | \$ 5,384                            | \$ 5,236                            |
| Provision for Income Taxes  | (1,243)                             | (1,274)                             |
| Net Income  | 4,141                               | 3,962                               |
| Net Income Attributable to Noncontrolling Interests   | (1,496)                             | (1,289)                             |
| Net Income Attributable to Flanigan's Enterprises, Inc.<br>Stockholders   | \$ 2,645                            | \$ 2,673                            |
| Depreciation and Amortization:  |                                     |                                     |
| Restaurants   | \$ 1,526                            | \$ 1,485                            |
| Package stores  | 153                                 | 152                                 |
|   | 1,679                               | 1,637                               |
| Corporate   | 317                                 | 370                                 |
| Total Depreciation and Amortization   | \$ 1,996                            | \$ 2,007                            |
| Capital Expenditures:   |                                     |                                     |
| Restaurants   | \$ 1,141                            | \$ 2,894                            |
| Package stores  | 217                                 | 145                                 |
|   | 1,358                               | 3,039                               |
| Corporate   | 1,555                               | 300                                 |
| Total Capital Expenditures  | \$ 2,913                            | \$ 3,339                            |

|                      | July 2,<br>2016 | October<br>3,<br>2015 |
|----------------------|-----------------|-----------------------|
| Identifiable Assets: |                 |                       |
| Restaurants          | \$28,626        | \$29,478              |
| Package store        | 4,757           | 4,393                 |
|                      | 33,383          | 33,871                |

|                     |          |          |
|---------------------|----------|----------|
| Corporate           | 22,838   | 20,751   |
| Consolidated Totals | \$56,221 | \$54,622 |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reported financial results may not be indicative of the financial results of future periods. All non-historical information contained in the following discussion constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as “anticipates, appears, expects, trends, intends, hopes, plans, believes, seeks, estimates, may, will,” and variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve a number of risks and uncertainties, including but not limited to customer demand and competitive conditions. Factors that could cause actual results to differ materially are included in, but not limited to, those identified in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Annual Report on our Form 10-K for the fiscal year ended October 3, 2015 and in this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may reflect events or circumstances after the date of this report.



Index**OVERVIEW**

At July 2, 2016, we (i) operated 25 units, (excluding the adult entertainment club referenced in (ii) below), consisting of restaurants, package stores and combination restaurants/package stores that we either own or have operational control over and partial ownership in; (ii) own but do not operate one adult entertainment club; and (iii) franchise an additional five units, consisting of two restaurants, (one restaurant of which we operate), and three combination restaurants/package stores. The table below provides information concerning the type (i.e. restaurant, package store or combination restaurant/package liquor store) and ownership of the units (i.e. whether (i) we own 100% of the unit; (ii) the unit is owned by a limited partnership of which we are the sole general partner and/or have invested in; or (iii) the unit is franchised by us), as of July 2, 2016 and as compared to June 27, 2015 and October 3, 2015. With the exception of “The Whale’s Rib”, a restaurant we operate but do not own, all of the restaurants operate under our service mark “Flanigan’s Seafood Bar and Grill” and all of the package liquor stores operate under our service mark “Big Daddy’s Liquors”.

| <b><u>Types of Units</u></b>              | <b><u>July 2, 2016</u></b> | <b><u>October 3, 2015</u></b> | <b><u>June 27, 2015</u></b> |
|---|----------------------------|-------------------------------|-----------------------------|
| <b>Company Owned:</b>                     |                            |                               |                             |
| Combination package and restaurant        | 4                          | 4                             | 4                           |
| Restaurant only                           | 6                          | 6                             | 6                           |
| Package store only                        | 5                          | 5                             | 5                           |
| <b>Company Operated Restaurants Only:</b> |                            |                               |                             |
| Limited Partnerships                      | 8                          | 8                             | 8                           |
| Franchise                                 | 1                          | 1                             | 1                           |
| Unrelated Third Party                     | 1                          | 1                             | 1                           |
| <b>Company Owned Club:</b>                | <b>1</b>                   | <b>1</b>                      | <b>1</b>                    |
| <b>Total Company Owned/Operated Units</b> | <b>26</b>                  | <b>26</b>                     | <b>26</b>                   |
| <b>Franchised Units</b>                   | <b>5</b>                   | <b>5</b>                      | <b>5</b> (1)                |

**Notes:**

(1) We operate a restaurant for one (1) franchisee. This unit is included in the table both as a franchised restaurant, as well as a restaurant operated by us.

**Franchise Financial Arrangement:** In exchange for our providing management and related services to our franchisees and granting them the right to use our service marks “Flanigan’s Seafood Bar and Grill” and “Big Daddy’s Liquors”, our franchisees (four of which are franchised to members of the family of our Chairman of the Board, officers and/or directors), are required to (i) pay to us a royalty equal to 1% of gross package store sales and 3% of gross restaurant sales; and (ii) make advertising expenditures equal to between 1.5% to 3% of all gross sales based upon our actual advertising costs allocated between stores, pro-rata, based upon gross sales.



Index

**Limited Partnership Financial Arrangement:** We manage and control the operations of all restaurants owned by limited partnerships, except the Fort Lauderdale, Florida restaurant which is owned and managed by a related franchisee. Accordingly, the results of operations of all limited partnership owned restaurants, except the Fort Lauderdale, Florida restaurant are consolidated into our operations for accounting purposes. The results of operations of the Fort Lauderdale, Florida restaurant are accounted for by us utilizing the equity method. In general, until the investors' cash investment in a limited partnership (including any cash invested by us and our affiliates) is returned in full, the limited partnership distributes to the investors annually out of available cash from the operation of the restaurant up to 25% of the cash invested in the limited partnership, with no management fee paid to us. Any available cash in excess of the 25% of the cash invested in the limited partnership distributed to the investors annually, is paid one-half (1/2) to us as a management fee, with the balance distributed to the investors. Once the investors in the limited partnership have received, in full, amounts equal to their cash invested, an annual management fee is payable to us equal to one-half (1/2) of available cash to the limited partnership, with the other one half (1/2) of available cash distributed to the investors (including us and our affiliates). As of July 2, 2016, limited partnerships owning five (5) restaurants, (Surfside, Florida, Kendall, Florida, West Miami, Florida, Pinecrest, Florida and Wellington, Florida locations), have returned all cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by the limited partnership. In addition to its receipt of distributable amounts from the limited partnerships, we receive a fee equal to 3% of gross sales for use of the service mark "Flanigan's Seafood Bar and Grill".

**RESULTS OF OPERATIONS**

|                            | -----Thirteen Weeks Ended----- |                |                       |                |
|----------------------------|--------------------------------|----------------|-----------------------|----------------|
|                            | July 2, 2016                   |                | June 27, 2015         |                |
|                            | <b>Amount</b>                  |                | <b>Amount</b>         |                |
|                            | <b>(In thousands)</b>          | <b>Percent</b> | <b>(In thousands)</b> | <b>Percent</b> |
| Restaurant food sales      | \$ 16,764                      | 65.10          | \$ 15,837             | 65.50          |
| Restaurant bar sales       | 5,185                          | 20.14          | 4,794                 | 19.83          |
| Package store sales        | 3,801                          | 14.76          | 3,548                 | 14.67          |
| .                          | \$ 25,750                      | 100.00         | \$ 24,179             | 100.00         |
| Franchise related revenues | 369                            |                | 393                   |                |
| Rental income              | 162                            |                | 138                   |                |
| Owner's fee                | 38                             |                | 37                    |                |
| Other operating income     | 64                             |                | 49                    |                |
| Total Revenue              | \$ 26,383                      |                | \$ 24,796             |                |

Index

|                            | -----Thirty-Nine Weeks Ended----- |                |                       |                |
|----------------------------|-----------------------------------|----------------|-----------------------|----------------|
|                            | July 2, 2016                      |                | June 27, 2015         |                |
|                            | <b>Amount</b>                     |                | <b>Amount</b>         |                |
|                            | <b>(In thousands)</b>             | <b>Percent</b> | <b>(In thousands)</b> | <b>Percent</b> |
| Restaurant food sales      | \$ 49,017                         | 63.87          | \$ 46,329             | 64.18          |
| Restaurant bar sales       | 15,572                            | 20.29          | 14,181                | 19.65          |
| Package store sales        | 12,155                            | 15.84          | 11,672                | 16.17          |
| <b>Total Sales</b>         | <b>\$ 76,744</b>                  | <b>100.00</b>  | <b>\$ 72,182</b>      | <b>100.00</b>  |
| Franchise related revenues | 1,172                             |                | 1,142                 |                |
| Rental income              | 428                               |                | 405                   |                |
| Owner's fee                | 113                               |                | 125                   |                |
| Other operating income     | 178                               |                | 156                   |                |
| <b>Total Revenue</b>       | <b>\$ 78,635</b>                  |                | <b>\$ 74,010</b>      |                |

**Comparison of Thirteen Weeks Ended July 2, 2016 and June 27, 2015.**

**Revenues.** Total revenue for the thirteen weeks ended July 2, 2016 increased \$1,587,000 or 6.40% to \$26,383,000 from \$24,796,000 for the thirteen weeks ended June 27, 2015 due primarily to increased menu prices and to a lesser extent increased restaurant traffic. Effective February 7, 2016 we increased certain menu prices for our bar offerings to target an increase to our total bar revenues of approximately 3.0% annually and effective February 15, 2016 we increased certain menu prices for our food offerings to target an increase to our total food revenues of approximately 3.7% annually, (the "Price Increases").

**Restaurant Food Sales.** Restaurant revenue generated from the sale of food at restaurants (food sales) totaled \$16,764,000 for the thirteen weeks ended July 2, 2016 as compared to \$15,837,000 for the thirteen weeks ended June 27, 2015. The increase in restaurant revenue from the sale of food at restaurants for the thirteen weeks ended July 2, 2016 as compared to the thirteen weeks ended June 27, 2015 is primarily due to the Price Increases and to a lesser extent increased restaurant traffic. Comparable weekly food sales (for restaurants open for all of the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, which consists of ten restaurants owned by us and eight restaurants owned by affiliated limited partnerships) was \$1,290,000 and \$1,218,000 for the thirteen weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 5.91%. Comparable weekly food sales for Company owned restaurants was \$682,000 and \$638,000 for the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, respectively, an increase of 6.90%. Comparable weekly food sales for affiliated limited partnership owned restaurants was \$608,000 and \$580,000 for the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, respectively, an increase of 4.82%.

**Restaurant Bar Sales.** Restaurant revenue generated from the sale of alcoholic beverages at restaurants (bar sales) totaled \$5,185,000 for the thirteen weeks ended July 2, 2016 as compared to \$4,794,000 for the thirteen weeks ended June 27, 2015. The increase in restaurant revenue from the sale of alcoholic beverages at restaurants for the thirteen weeks ended July 2, 2016 as compared to the thirteen weeks ended June 27, 2015 is primarily due to the Price Increases and to a lesser extent increased restaurant traffic. Comparable weekly bar sales (for restaurants open for all of the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, which consists of ten restaurants owned by us and eight restaurants owned by affiliated limited partnerships) was \$399,000 for the thirteen weeks ended July 2, 2016 and \$369,000 for the thirteen weeks ended June 27, 2015, an increase of 8.13%. Comparable weekly bar sales for Company owned restaurants was \$188,000 and \$173,000 for the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, respectively, an increase of 8.67%. Comparable weekly bar sales for affiliated limited partnership owned restaurants was \$211,000 and \$196,000 for the third quarter of our fiscal year 2016 and the third quarter of our fiscal year 2015, respectively, an increase of 7.65%.

Index

**Package Store Sales.** Revenue generated from sales of liquor and related items at package liquor stores (package store sales) totaled \$3,801,000 for the thirteen weeks ended July 2, 2016 as compared to \$3,548,000 for the thirteen weeks ended June 27, 2015, an increase of \$253,000. This increase was primarily due to increased package liquor store traffic. The weekly average of same store package store sales, (which includes all nine (9) Company owned package liquor stores open for all of the third quarter of our fiscal years 2016 and 2015), was \$292,000 for the thirteen weeks ended July 2, 2016 as compared to \$273,000 for the thirteen weeks ended June 27, 2015, an increase of 6.96%. We expect package liquor store sales to remain stable throughout the balance of our fiscal year 2016.

**Operating Costs and Expenses.** Operating costs and expenses, (consisting of cost of merchandise sold, payroll and related costs, occupancy costs and selling, general and administrative expenses), for the thirteen weeks ended July 2, 2016 increased \$1,123,000 or 4.91% to \$23,972,000 from \$22,849,000 for the thirteen weeks ended June 27, 2015. The increase was primarily due to an expected general increase in food costs, offset by actions taken by management to reduce and/or control costs and expenses. We anticipate that our operating costs and expenses will continue to increase through our fiscal year 2016 for the same reasons. Operating costs and expenses decreased as a percentage of total sales to approximately 90.86% in the third quarter of our fiscal year 2016 from 92.15% in the third quarter of our fiscal year 2015.

**Gross Profit.** Gross profit is calculated by subtracting the cost of merchandise sold from sales.

**Restaurant Food and Bar Sales.** Gross profit for food sales and bar sales for the thirteen weeks ended July 2, 2016 increased to \$14,346,000 from \$13,234,000 for the thirteen weeks ended June 27, 2015. Our gross profit margin for food sales and bar sales (calculated as gross profit reflected as a percentage of restaurant food sales and bar sales), was 65.36% for the thirteen weeks ended July 2, 2016 and 64.15% for the thirteen weeks ended June 27, 2015. The increase in gross profit margin for food sales and bar sales was due primarily to the Price Increases. We anticipate that our gross profit margin for restaurant food and bar sales will remain stable throughout the balance of our fiscal year 2016 due to the Price Increases, offset by higher food costs.

**Package Store Sales.** Gross profit for package store sales for the thirteen weeks ended July 2, 2016 increased to \$1,065,000 from \$1,035,000 for the thirteen weeks ended June 27, 2015. Our gross profit margin, (calculated as gross profit reflected as a percentage of package store sales), for package store sales was 28.01% for the thirteen weeks ended July 2, 2016 and 29.17% for the thirteen weeks ended June 27, 2015. We anticipate that the gross profit margin for package store sales will be stable throughout the balance of our fiscal year 2016.

**Payroll and Related Costs.** Payroll and related costs for the thirteen weeks ended July 2, 2016 increased \$503,000 or 6.69% to \$8,024,000 from \$7,521,000 for the thirteen weeks ended June 27, 2015. Higher payroll and related costs for the thirteen weeks ended July 2, 2016 were primarily due to higher restaurant sales, which require additional payroll and related costs for employees such as cooks, bartenders and servers. Payroll and related costs as a percentage of total sales was 30.41% in the third quarter of our fiscal year 2016 and 30.33% of total sales in the third quarter of our fiscal year 2015.

**Occupancy Costs.** Occupancy costs (consisting of rent, common area maintenance, repairs, real property taxes and amortization of leasehold purchases) for the thirteen weeks ended July 2, 2016 increased \$118,000 or 9.53% to \$1,356,000 from \$1,238,000 for the thirteen weeks ended June 27, 2015. We anticipate that our occupancy costs will remain stable throughout the balance of our fiscal year 2016.

Index

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses (consisting of general corporate expenses, including but not limited to advertising, insurance, professional costs, clerical and administrative overhead) for the thirteen weeks ended July 2, 2016 increased \$73,000 or 1.75% to \$4,253,000 from \$4,180,000 for the thirteen weeks ended June 27, 2015. Selling, general and administrative expenses decreased as a percentage of total sales in the third quarter of our fiscal year 2016 to approximately 16.12% as compared to 16.86% in the third quarter of our fiscal year 2015. We anticipate that our selling, general and administrative expenses will increase throughout the balance of our fiscal year 2016 due primarily to increases across all categories.

***Depreciation and Amortization.*** Depreciation and amortization expense, which is included in selling, general and administrative expenses, for the thirteen weeks ended July 2, 2016 increased \$80,000 or 11.90% to \$752,000 from \$672,000 for the thirteen weeks ended June 27, 2015. As a percentage of total revenue, depreciation and amortization expense was 2.85% of revenue in the thirteen weeks ended July 2, 2016 and 2.71% of revenue in the thirteen weeks ended June 27, 2015.

***Interest Expense, Net.*** Interest expense, net, for the thirteen weeks ended July 2, 2016 decreased \$13,000 to \$137,000 from \$150,000 for the thirteen weeks ended June 27, 2015.

***Net Income.*** Net income for the thirteen weeks ended July 2, 2016 increased \$380,000 or 27.32% to \$1,771,000 from \$1,391,000 for the thirteen weeks ended June 27, 2015. Net income for the thirteen weeks ended July 2, 2016 increased when compared to the thirteen weeks ended June 27, 2015 primarily due to the Price Increases and to a lesser extent increased restaurant traffic, offset by higher food costs and overall expenses. As a percentage of sales, net income for the third quarter of our fiscal year 2016 is 6.71%, as compared to 5.61% in the third quarter of our fiscal year 2015.

***Net Income Attributable to Stockholders.*** Net income attributable to stockholders for the thirteen weeks ended July 2, 2016 increased \$305,000 or 36.22% to \$1,147,000 from \$842,000 for the thirteen weeks ended June 27, 2015. Net income attributable to stockholders for the thirteen weeks ended July 2, 2016 increased when compared to the thirteen weeks ended June 27, 2015 primarily due to the Price Increases and to a lesser extent increased restaurant traffic, offset by higher food costs and overall expenses. As a percentage of sales, net income attributable to stockholders for the third quarter of our fiscal year 2016 is 4.35%, as compared to 3.40% in the third quarter of our fiscal year 2015.

***Comparison of Thirty-Nine Weeks Ended July 2, 2016 and June 27, 2015.***

***Revenues.*** Total revenue for the thirty nine weeks ended July 2, 2016 increased \$4,625,000 or 6.25% to \$78,635,000 from \$74,010,000 for the thirty nine weeks ended June 27, 2015 due primarily to the Price Increases and to a lesser extent increased restaurant traffic.



**Restaurant Food Sales.** Restaurant revenue generated from the sale of food at restaurants (food sales) totaled \$49,017,000 for the thirty nine weeks ended July 2, 2016 as compared to \$46,329,000 for the thirty nine weeks ended June 27, 2015. The increase in restaurant revenue from the sale of food from restaurants for the thirty nine weeks ended July 2, 2016 as compared to the thirty nine weeks ended June 27, 2015 is primarily due to Price Increases and to a lesser extent increased restaurant traffic. Comparable weekly food sales (for restaurants open for all of the thirty nine weeks of our fiscal years 2016 and 2015, which consists of ten restaurants owned by us and eight restaurants owned by affiliated limited partnerships) was \$1,257,000 and \$1,188,000 for the thirty nine weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 5.81%. Comparable weekly food sales for Company owned restaurants was \$667,000 and \$621,000 for the thirty nine weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 7.41%. Comparable weekly food sales for affiliated limited partnership owned restaurants was \$590,000 and \$567,000 for the thirty nine weeks ended July 2, 2016 and July 27, 2015, respectively, an increase of 4.06%.

Index

**Restaurant Bar Sales.** Restaurant revenue generated from the sale of alcoholic beverages at restaurants (bar sales) totaled \$15,572,000 for the thirty nine weeks ended July 2, 2016 as compared to \$14,181,000 for the thirty nine weeks ended June 27, 2015. The increase in restaurant revenue from the sale of alcoholic beverages from restaurants for the thirty nine weeks ended July 2, 2016 as compared to the thirty nine weeks ended June 27, 2015 is primarily due to the Price Increases and to a lesser extent increased restaurant traffic. Comparable weekly bar sales (for restaurants open for all of the thirty nine weeks of our fiscal years 2016 and 2015, which consists of ten restaurants owned by us and eight restaurants owned by affiliated limited partnerships) was \$399,000 for the thirty nine weeks ended July 2, 2016 and \$364,000 for the thirty nine weeks ended June 27, 2015, an increase of 9.61%. Comparable weekly bar sales for Company owned restaurants was \$189,000 and \$171,000 for the thirty nine weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 10.53%. Comparable weekly bar sales for affiliated limited partnership owned restaurants was \$210,000 and \$193,000 for the thirty nine weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 8.81%.

**Package Store Sales.** Revenue generated from sales of liquor and related items at package stores (package store sales) totaled \$12,155,000 for the thirty nine weeks ended July 2, 2016 as compared to \$11,672,000 for the thirty nine weeks ended June 27, 2015, an increase of \$483,000. This increase was primarily due to increased package liquor store traffic. The weekly average of same store package store sales, (which includes all nine (9) Company owned package liquor stores open for all of the thirty nine weeks of our fiscal years 2016 and 2015) was \$312,000 and \$299,000 for the thirty nine weeks ended July 2, 2016 and June 27, 2015, respectively, an increase of 4.35%. Package liquor store sales are expected to remain stable throughout the balance of our fiscal year 2016.

**Operating Costs and Expenses.** Operating costs and expenses, (consisting of cost of merchandise sold, payroll and related costs, occupancy costs and selling, general and administrative expenses), for the thirty nine weeks ended July 2, 2016 increased \$4,511,000 or 6.60% to \$72,895,000 from \$68,384,000 for the thirty nine weeks ended June 27, 2015. The increase was primarily due to an expected general increase in food costs, offset by actions taken by management to reduce and/or control costs and expenses. We anticipate that our operating costs and expenses will continue to increase through our fiscal year 2016 for the same reasons. Operating costs and expenses increased as a percentage of total sales to approximately 92.70% for the thirty nine weeks ended July 2, 2016 from 92.40% for the thirty nine weeks ended June 27, 2015.

**Gross Profit.** Gross profit is calculated by subtracting the cost of merchandise sold from sales.

**Restaurant Food and Bar Sales.** Gross profit for food and bar sales for the thirty nine weeks ended July 2, 2016 increased to \$42,046,000 from \$38,953,000 for the thirty nine weeks ended June 27, 2015. Our gross profit margin for food sales and bar sales (calculated as gross profit reflected as a percentage of food sales and bar sales), was 65.10% for the thirty nine weeks ended July 2, 2016 and 64.37% for the thirty nine weeks ended June 27, 2015. The increase in gross profit margin for food sales and bar sales was due primarily to the Price Increases. We anticipate that our gross profit margin for restaurant food and bar sales will remain stable throughout the balance of our fiscal year 2016 due to the Price Increases, offset by higher food costs.

**Package Store Sales.** Gross profit for package store sales for the thirty nine weeks ended July 2, 2016 increased to \$3,471,000 from \$3,397,000 for the thirty nine weeks ended June 27, 2015. Our gross profit margin, (calculated as gross profit reflected as a percentage of package store sales), was 28.56% for the thirty nine weeks ended July 2, 2016 compared to 29.10% for the thirty nine weeks ended June 27, 2015. We anticipate that the gross profit margin for package store sales will remain stable throughout the balance of our fiscal year 2016.

Index

**Payroll and Related Costs.** Payroll and related costs for the thirty nine weeks ended July 2, 2016 increased \$1,819,000 or 8.18% to \$24,064,000 from \$22,245,000 for the thirty nine weeks ended June 27, 2015. Higher payroll and related costs for the thirty nine weeks ended July 2, 2016 were primarily due to higher restaurant sales which require additional payroll and related costs for employees such as cooks, bartenders and servers. Payroll and related costs as a percentage of total sales was 30.60% for the thirty nine weeks ended July 2, 2016 and 30.06% of total sales for the thirty nine weeks ended June 27, 2015.

**Occupancy Costs.** Occupancy costs (consisting of rent, common area maintenance, repairs, real property taxes and amortization of leasehold purchases) for the thirty nine weeks ended July 2, 2016 increased \$384,000 or 10.64% to \$3,993,000 from \$3,609,000 for the thirty nine weeks ended June 27, 2015. We anticipate that our occupancy costs will remain stable throughout our fiscal year 2016.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (consisting of general corporate expenses, including but not limited to advertising, insurance, professional costs, clerical and administrative overhead) for the thirty nine weeks ended July 2, 2016 increased \$913,000 or 7.19% to \$13,611,000 from \$12,698,000 for the thirty nine weeks ended June 27, 2015. Selling, general and administrative expenses increased as a percentage of total sales for the thirty nine weeks ended July 2, 2016 to 17.31% as compared to 17.16% for the thirty nine weeks ended June 27, 2015. We anticipate that our selling, general and administrative expenses will increase throughout the balance of our fiscal year 2016 due primarily to increases across all categories.

**Depreciation and Amortization.** Depreciation and amortization expense, which is included in selling, general and administrative expenses, for the thirty nine weeks ended July 2, 2016 decreased \$11,000 or 0.55% to \$1,996,000 from \$2,007,000 for the thirty nine weeks ended June 27, 2015. As a percentage of revenue, depreciation and amortization expense was 2.54% of revenue in the thirty nine weeks ended July 2, 2016 and 2.71% of revenue in the thirty nine weeks ended June 27, 2015.

**Interest Expense, Net.** Interest expense, net, for the thirty nine weeks ended July 2, 2016 decreased \$41,000 to \$421,000 from \$462,000 for the thirty nine weeks ended June 27, 2015.

**Net Income.** Net income for the thirty nine weeks ended July 2, 2016 increased \$179,000 or 4.52% to \$4,141,000 from \$3,962,000 for the thirty nine weeks ended June 27, 2015. Net income for the thirty nine weeks ended July 2, 2016 increased when compared to the thirty nine weeks ended June 27, 2015 primarily due to the Price Increases and to a lesser extent increased restaurant traffic, offset partially by higher food costs and overall expenses. As a percentage of sales, net income for the thirty nine weeks ended July 2, 2016 is 5.27%, as compared to 5.35% for the thirty nine weeks ended June 27, 2015.

***Net Income Attributable to Stockholders.*** Net income attributable to stockholders for the thirty nine weeks ended July 2, 2016 decreased \$28,000 or 1.05% to \$2,645,000 from \$2,673,000 for the thirty nine weeks ended June 27, 2015. Net income attributable to stockholders for the thirty nine weeks ended July 2, 2016 decreased when compared to the thirty nine weeks ended June 27, 2015 primarily due to higher food costs and overall expenses, offset partially by the Price Increases and to a lesser extent increased restaurant traffic. As a percentage of sales, net income attributable to stockholders for the thirty nine weeks ended July 2, 2016 is 3.36%, as compared to 3.61% for the thirty nine weeks ended June 27, 2015.

### **New Limited Partnership Restaurants**

As new restaurants open, our income from operations will be adversely affected due to our obligation to fund pre-opening costs, including but not limited to pre-opening rent for the new locations. During the thirty nine weeks ended July 2, 2016, we did not have a new restaurant location in the development stage and did not recognize any pre-opening costs.

Index

**Menu Price Increases and Trends**

Effective February 7, 2016 we increased menu prices for our bar offerings to target an increase to our bar revenues of approximately 3.0% annually and effective February 15, 2016 we increased menu prices for our food offerings to target an increase to our food revenues of approximately 3.7% annually to offset higher food costs and higher overall expenses. The last time we increased menu prices was in the third quarter of our fiscal year 2012 and we plan to limit further menu price increases as long as possible. During the next twelve months, although there can be no assurances, we expect that as a result of increased menu prices, restaurant and bar sales should increase resulting in increased gross profit for restaurant food and bar operations, which in turn should positively affect our net income. We anticipate that our package liquor store sales and gross profit margin for package liquor store sales will remain stable during our fiscal year 2016. We also plan to continue our increased advertising to attract and retain our customers against increased competition.

We do not have a new “Flanigan’s Seafood Bar and Grill” restaurant in the development stage, but continue to search for new locations to open restaurants and thereby expand our business. We may expand “The Whale’s Rib” restaurant concept that we manage in Deerfield Beach, Florida with a new restaurant in the early development stage in the Flanigan’s Calusa Center in Miami, Florida. We have the right to open new restaurant locations using “The Whale’s Rib” concept, including trademark, through a license arrangement with the owner. Any new locations will likely be opened using our limited partnership ownership model.

We are not actively searching for locations for the operation of new package liquor stores, but if an appropriate location for a package liquor store becomes available, we will consider it.

**Liquidity and Capital Resources**

We fund our operations through cash from operations. As of July 2, 2016, we had cash of approximately \$9,736,000, an increase of \$469,000 from our cash balance of \$9,267,000 as of October 3, 2015. During the second quarter of our fiscal year 2016, we paid on April 1, 2016 a dividend of \$.18 per share and during the first quarter of our fiscal year 2016, we used \$922,500 to purchase the real property and improvements located at 1290 East Commercial Boulevard, Oakland Park, Broward County, Florida and the vacant real property located at 4990 N.E. 12<sup>th</sup> Avenue, Oakland Park, Broward County, Florida. We believe that our current cash availability from our cash on hand and the expected cash from operations will be sufficient to fund operations and capital expenditures for at least the next twelve months.

**Cash Flows**

The following table is a summary of our cash flows for the thirty-nine weeks ended July 2, 2016 and June 27, 2015.

Index

|  | -----Thirty-Nine Weeks Ended----- |               |
|--|-----------------------------------|---------------|
|  | July 2, 2016                      | June 27, 2015 |
|  | (in Thousands)                    |               |
| Net cash provided by operating activities    | \$ 6,775                          | \$ 9,579      |
| Net cash used in investing activities        | (2,822 )                          | (3,178 )      |
| Net cash used in financing activities        | (3,484 )                          | (4,512 )      |
| Net Increase in Cash and Cash<br>Equivalents | 469                               | 1,889         |
| Cash and Cash Equivalents, Beginning         | 9,267                             | 8,099         |
| Cash and Cash Equivalents, Ending            | \$ 9,736                          | \$ 9,988      |

During the thirty nine weeks ended July 2, 2016, our Board of Directors declared and paid a cash dividend of 18 cents per share to shareholders of record on March 18, 2016. During the thirty nine weeks ended June 27, 2015, our Board of Directors declared and paid a cash dividend of 15 cents per share to shareholders of record on January 16, 2015. Any future determination to pay cash dividends will be at our Board's discretion and will depend upon our financial condition, operating results, capital requirements and such other factors as our Board deems relevant.

**Capital Expenditures**

In addition to using cash for our operating expenses, we use cash to fund the development and construction of new restaurants and to fund capitalized property improvements for our existing restaurants. During the thirty nine weeks ended July 2, 2016, we acquired property and equipment of \$2,913,000, (of which \$228,000 was deposits recorded in other assets as of October 3, 2015), which amount included \$922,500 to purchase the real property and improvements located at 1290 East Commercial Boulevard, Oakland Park, Broward County, Florida and the vacant real property located at 4990 N.E. 12<sup>th</sup> Avenue, Oakland Park, Broward County, Florida and \$239,000 for one (1) limited partnership and one (1) Company owned restaurants. During the thirty nine weeks ended June 27, 2015, we acquired property and equipment of \$3,339,000, (of which \$131,000 was deposits recorded in other assets as of September 27, 2014), during the thirty nine weeks ended June 27, 2015, which amount included \$1,500,000 to purchase the vacant real property adjacent to the real property we own where our combination package liquor store and restaurant located at 2505 N. University Drive, Hollywood, Florida (Store #19) operates and which amount included \$376,000 for one (1) limited partnership and three (3) Company owned restaurants.

All of our owned units require periodic refurbishing in order to remain competitive. We anticipate the cost of this refurbishment in our fiscal year 2016 to be approximately \$350,000, of which \$239,000 has been spent through July 2, 2016.



## **Long Term Debt**

As of July 2, 2016, we had long term debt of \$10,708,000, as compared to \$12,024,000 as of June 27, 2015, and \$11,380,000 as of October 3, 2015. As of July 2, 2016, we are in compliance with the covenants of all loans with our lender.

As of July 2, 2016, the aggregate principal balance owed from the financing of our property and general liability insurance policies is \$458,000.

Index**Purchase Commitments**

In order to fix the cost and ensure adequate supply of baby back ribs for our restaurants during calendar year 2016, on October 15, 2015, we entered into a purchase agreement with our current rib supplier, whereby we agreed to purchase approximately \$5,076,000 of baby back ribs during calendar year 2016 from this vendor at a fixed cost.

While we anticipate purchasing all of our rib supply from this vendor, we believe there are several other alternative vendors available, if needed.

**Working Capital**

The table below summarizes the current assets, current liabilities, and working capital for our fiscal quarters ended July 2, 2016, June 27, 2015 and our fiscal year ended October 3, 2015.

| <u>Item</u>         | July 2,<br>2016<br>(in thousands) | June 27, 2015 | Oct. 3, 2015 |
|---------------------|-----------------------------------|---------------|--------------|
| Current Assets      | \$ 14,593                         | \$ 14,786     | \$ 13,717    |
| Current Liabilities | 10,533                            | 12,154        | 10,649       |
| Working Capital     | \$ 4,060                          | \$ 2,632      | \$ 3,068     |

Our working capital as of July 2, 2016 increased by 54.26% from our working capital as of June 27, 2015 and increased by 32.33% from our working capital as of October 3, 2015. During the first quarter of our fiscal year 2016, we used \$922,500 to purchase the real property and improvements located at 1290 East Commercial Boulevard, Oakland Park, Broward County, Florida and the vacant real property located at 4990 N.E. 12<sup>th</sup> Avenue, Oakland Park, Broward County, Florida. During the second quarter of our fiscal year 2015, we used \$1,500,000 to purchase the vacant real property adjacent to the real property we own where our combination package liquor store and restaurant located at 2505 N. University Drive, Hollywood, Florida (Store #19) operates.

During the balance of our fiscal year 2016 and into our fiscal year 2017, we intend to use working capital to build a new building on a parcel of real property we own which is near the real property where our combination package liquor store and restaurant located at 13205 Biscayne Boulevard, North Miami, Florida, (Store #20) operates. Our intent is to re-locate our package liquor store to the new building and to renovate and expand the restaurant into the former package liquor store space. We estimate that the renovation and relocation, including the de-novo development of the new building will cost approximately \$2,500,000, of which we intend to finance a part. There can be no

assurances as to the timing of the renovation, relocation or de-novo development or whether we will pursue it at all, due to among other reasons, the availability of reasonable financing terms or adverse business results.

### **Off-Balance Sheet Arrangements**

We do not have off-balance sheet arrangements.

### **Inflation**

The primary inflationary factors affecting our operations are food, beverage and labor costs. A large number of restaurant personnel are paid at rates based upon applicable minimum wage and increases in minimum wage directly affect labor costs. To date, inflation has not had a material impact on our operating results, but this circumstance may change in the future if food and fuel costs continue to rise.

Index

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not ordinarily hold market risk sensitive instruments for trading purposes and as of July 2, 2016 we held no equity securities.

**Interest Rate Risk**

As part of our ongoing operations, we are exposed to interest rate fluctuations on our borrowings. As more fully described in Note 9 “Fair Value Measurements of Financial Instruments” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” of our Annual Report on Form 10-K for our fiscal year ended October 3, 2015, we use interest rate swap agreements to manage these risks. These instruments are not used for speculative purposes but are used to modify variable rate obligations into fixed rate obligations.

At July 2, 2016, we had four variable rate debt instruments outstanding that are impacted by changes in interest rates. In July, 2010, we re-financed the mortgage loan encumbering our corporate offices (the “Refinanced Mortgage Loan”). In November, 2011, we financed our purchase of the real property and two building shopping center in Miami, Florida, with a \$4,500,000 mortgage loan (the “\$4.5M Mortgage Loan”). In January, 2013, we re-financed the mortgage loan encumbering the property where our combination package liquor store and restaurant located at 4 N. Federal Highway, Hallandale, Florida, (Store #31) operates, which mortgage loan is held by an unaffiliated third party lender (the “\$1.405M Loan”) and borrowed \$1,595,000 from a non affiliated third party lender, (the “\$1.595M Term Loan”), and used all of the net proceeds of this loan to re-finance the property where our combination package liquor store and restaurant located at 4 N. Federal Highway, Hallandale, Florida, (Store #31) operates.

As a means of managing our interest rate risk on these debt instruments, we entered into interest rate swap agreements with our unrelated third party lender to convert these variable rate debt obligations to fixed rates. We are currently party to the following four (4) interest rate swap agreements:

(i) One (1) interest rate swap agreement entered into July, 2010 relates to the Refinanced Mortgage Loan (the “Mortgage Loan Swap”). The Mortgage Loan Swap requires us to pay interest for a seven (7) year period at a fixed rate of 5.11% on an initial amortizing notional principal amount of \$935,000, while receiving interest for the same period at LIBOR, Daily Floating Rate, plus 2.25%, on the same amortizing notional principal amount. Under this method of accounting, at July 2, 2016, we determined that based upon unadjusted quoted prices in active markets for similar assets or liabilities provided by our unrelated third party lender, the swap is not an effective hedging agreement, however the fair value of the Mortgage Loan Swap was not material;

(ii) The second interest rate swap agreement entered into in November, 2011 by our wholly owned subsidiary, Flanigan's Calusa Center, LLC, relates to the \$4.5 Mortgage Loan (the "\$4.5M Mortgage Loan Swap"). The \$4.5M Mortgage Loan Swap requires us to pay interest for an eight (8) year period at a fixed rate of 4.51% on an initial amortizing notional principal amount of \$3,750,000, while receiving interest for the same period at LIBOR – 1 Month, plus 2.25%, on the same amortizing notional principal amount. We determined that at July 2, 2016, the interest rate swap agreement is an effective hedging agreement and the fair value was not material;

(iii) The third interest rate swap agreement entered into in January, 2013 relates to the \$1.405M Loan (the "\$1.405M Term Loan Swap"). The \$1.405M Term Loan Swap requires us to pay interest for a twenty (20) year period at a fixed rate of 4.35% on an initial amortizing notional principal amount of \$1,405,000, while receiving interest for the same period at LIBOR – 1 Month, plus 2.25%, on the same amortizing notional principal amount. We determined that at July 2, 2016, the interest rate swap agreement is an effective hedging agreement and the fair value was not material; and

## Index

(iv) The fourth interest rate swap agreement entered into in January, 2013 relates to the \$1.595M Term Loan (the “\$1.595M Term Loan Swap”). The \$1.595M Term Loan Swap requires us to pay interest for a forty two (42) month period at a fixed rate of 4.00% on an initial amortizing notional principal amount of \$1,595,000, while receiving interest for the same period at LIBOR – 1 Month, plus 3.25%, on the same amortizing notional principal amount. We determined that at July 2, 2016, the interest rate swap agreement is an effective hedging agreement and the fair value was not material.

At July 2, 2016, our cash resources earn interest at variable rates. Accordingly, our return on these funds is affected by fluctuations in interest rates.

There is no assurance that interest rates will increase or decrease over our next fiscal year or that an increase will not have a material adverse effect on our operations.

## ITEM 4. CONTROLS AND PROCEDURES

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed with the U.S. Securities and Exchange Commission (the “SEC”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of July 2, 2016, an evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities Exchange Act of 1934) . Based on that evaluation, management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of July 2, 2016.

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

During the period covered by this report, we have not made any change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

See “Litigation” on page 10 of this Report and Item 1 and Item 3 to Part 1 of the Annual Report on Form 10-K for the fiscal year ended October 3, 2015 for a discussion of other legal proceedings resolved in prior years.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

#### **Purchase of Company Common Stock**

During the thirteen weeks ended July 2, 2016 and June 27, 2015, we did not purchase any shares of our common stock. As of July 2, 2016, we still have authority to purchase 65,414 shares of our common stock under the discretionary plan approved by the Board of Directors at its meeting on May 17, 2007.

Index

**ITEM 6. EXHIBITS**

The following exhibits are filed with this Report:

Exhibit Description

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

List of XBRL documents as exhibits 101

**SIGNATURES**

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

FLANIGAN'S ENTERPRISES, INC.

Date: August 16, 2016 /s/ James G. Flanigan  
JAMES G. FLANIGAN, Chief Executive Officer and President

/s/ Jeffrey D. Kastner  
JEFFREY D. KASTNER, Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)



