

ARK RESTAURANTS CORP  
Form 10-Q  
February 13, 2018  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

For the quarterly period ended December 30, 2017

Commission file number 1-09453

**ARK RESTAURANTS CORP.**

(Exact name of registrant as specified in its charter)

New York	13-3156768
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

85 Fifth Avenue, New York, New York	10003
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for shorter period that the

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes  No

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

Yes  No

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

Class	Outstanding shares at February 8, 2018
(Common stock, \$.01 par value)	3,436,681

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 30, 2017 ("Form 10-K") as may be updated by the information contained under the caption "Item 1A. Risk Factors" in Part II of this Quarterly Report on Form 10-Q.

From time to time, oral or written forward-looking statements are also included in our reports on Forms 10-K, 10-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.

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

(In Thousands, Except Per Share Amounts)

	December 30, 2017 (unaudited)	September 30, 2017 (see Note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (includes \$153 at December 30, 2017 and \$363 at September 30, 2017 related to VIEs)	\$ 153	\$ 1,406
Accounts receivable (includes \$344 at December 30, 2017 and \$367 at September 30, 2017 related to VIEs)	3,369	3,353
Employee receivables	374	399
Inventories (includes \$27 at December 30, 2017 and \$22 at September 30, 2017 related to VIEs)	2,028	1,992
Prepaid and refundable income taxes (includes \$228 at December 30, 2017 and \$226 at September 30, 2017 related to VIEs)	833	945
Prepaid expenses and other current assets (includes \$57 at December 30, 2017 and \$63 at September 30, 2017 related to VIEs)	1,800	1,988
Total current assets	8,557	10,083
FIXED ASSETS - Net (includes \$2 at December 30, 2017 and \$6 at September 30, 2017 related to VIEs)	46,477	45,215
INTANGIBLE ASSETS - Net	385	409
GOODWILL	9,880	9,880
TRADEMARKS	3,331	3,331
DEFERRED INCOME TAXES	2,694	1,491
INVESTMENT IN AND RECEIVABLE FROM NEW MEADOWLANDS RACETRACK	6,993	6,979
OTHER ASSETS (includes \$71 at December 30, 2017 and September 30, 2017 related to VIEs)	2,679	2,679
<b>TOTAL ASSETS</b>	<b>\$ 80,996</b>	<b>\$ 80,067</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade (includes \$53 at December 30, 2017 and \$116 at September 30, 2017 related to VIEs)	\$ 5,041	\$ 4,750
Accrued expenses and other current liabilities (includes \$310 at December 30, 2017 and \$260 at September 30, 2017 related to VIEs)	9,035	10,176

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Dividend payable	-	857
Borrowings under credit facility	8,498	6,198
Current portion of notes payable	4,180	4,174
Total current liabilities	26,754	26,155
OPERATING LEASE DEFERRED CREDIT (includes \$42 at December 30, 2017 and \$51 at September 30, 2017 related to VIEs)	3,570	3,648
NOTES PAYABLE, LESS CURRENT PORTION, net of deferred financing costs	7,473	7,824
TOTAL LIABILITIES	37,797	37,627
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Common stock, par value \$.01 per share - authorized, 10,000 shares; issued and outstanding, 3,436 shares at December 30, 2017 and 3,428 shares at September 30, 2017	34	34
Additional paid-in capital	12,799	12,639
Retained earnings	28,539	27,771
Total Ark Restaurants Corp. shareholders' equity	41,372	40,444
NON-CONTROLLING INTERESTS	1,827	1,996
TOTAL EQUITY	43,199	42,440
TOTAL LIABILITIES AND EQUITY	\$ 80,996	\$ 80,067

See notes to consolidated condensed financial statements.

**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)****FOR THE 13 WEEKS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**

(In Thousands, Except Per Share Amounts)

	13 Weeks Ended	
	December 30, 2017	December 31, 2016
<b>REVENUES:</b>		
Food and beverage sales	\$38,617	\$ 37,953
Other revenue	735	467
Total revenues	39,352	38,420
<b>COSTS AND EXPENSES:</b>		
Food and beverage cost of sales	10,230	9,750
Payroll expenses	13,710	12,956
Occupancy expenses	5,031	4,732
Other operating costs and expenses	5,117	4,866
General and administrative expenses	3,079	3,300
Depreciation and amortization	1,303	1,483
Total costs and expenses	38,470	37,087
<b>RESTAURANT OPERATING INCOME</b>	<b>882</b>	<b>1,333</b>
Gain on sale of Ark Jupiter RI, LLC	-	1,637
<b>OPERATING INCOME</b>	<b>882</b>	<b>2,970</b>
<b>OTHER (INCOME) EXPENSE:</b>		
Interest expense	233	101
Interest income	(14 )	(96 )
Total other (income) expense, net	219	5
<b>INCOME BEFORE PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>663</b>	<b>2,965</b>
Provision (benefit) for income taxes	(1,078 )	880
<b>CONSOLIDATED NET INCOME</b>	<b>1,741</b>	<b>2,085</b>
Net income attributable to non-controlling interests	(114 )	(351 )
<b>NET INCOME ATTRIBUTABLE TO ARK RESTAURANTS CORP.</b>	<b>\$1,627</b>	<b>\$ 1,734</b>
<b>NET INCOME PER ARK RESTAURANTS CORP. COMMON SHARE:</b>		
Basic	\$0.47	\$ 0.51
Diluted	\$0.46	\$ 0.49
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>		
Basic	3,432	3,423
Diluted	3,549	3,507

See notes to consolidated condensed financial statements.

**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN EQUITY (Unaudited)****FOR THE 13 WEEKS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**

(In Thousands, Except Per Share Amounts)

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Ark Restaurants Corp. Shareholders' Equity</b>	<b>Non- controlling Interests</b>	<b>Total Equity</b>
	Shares	Amount					
BALANCE - October 1, 2016	3,423	\$ 34	\$ 12,942	\$ 27,158	\$ 40,134	\$ 2,570	\$ 42,704
Net income	-	-	-	1,734	1,734	351	2,085
Change in excess tax benefits from stock-based compensation	-	-	(397 )	-	(397 )	-	(397 )
Distributions to non-controlling interests	-	-	-	-	-	(622 )	(622 )
Dividends paid - \$0.25 per share	-	-	-	(856 )	(856 )	-	(856 )
BALANCE - December 31, 2016	3,423	\$ 34	\$ 12,545	\$ 28,036	\$ 40,615	\$ 2,299	\$ 42,914
BALANCE - September 30, 2017	3,428	\$ 34	\$ 12,639	\$ 27,771	\$ 40,444	\$ 1,996	\$ 42,440
Net income	-	-	-	1,627	1,627	114	1,741
Exercise of stock options	8	-	148	-	148	-	148
Tax benefit on exercise of stock options	-	-	12	-	12	-	12
Distributions to non-controlling interests	-	-	-	-	-	(283 )	(283 )
Dividends paid - \$0.25 per share	-	-	-	(859 )	(859 )	-	(859 )
BALANCE - December 30, 2017	3,436	\$ 34	\$ 12,799	\$ 28,539	\$ 41,372	\$ 1,827	\$ 43,199

See notes to consolidated condensed financial statements.



**ARK RESTAURANTS CORP. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)****FOR THE 13 WEEKS ENDED DECEMBER 30, 2016 AND DECEMBER 31, 2016**

(In Thousands)

	13 Weeks Ended	
	December 30, 2017	December 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated net income	\$1,741	\$ 2,085
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on sale of Ark Jupiter RI, LLC	-	(1,637 )
Deferred income taxes	(1,191)	(13 )
Accrued interest on note receivable from NMR	(14 )	-
Depreciation and amortization	1,303	1,483
Amortization of deferred financing costs	6	11
Operating lease deferred credit	(78 )	(52 )
Changes in operating assets and liabilities:		
Accounts receivable	(16 )	18
Inventories	(36 )	24
Prepaid, refundable and accrued income taxes	112	855
Prepaid expenses and other current assets	188	470
Other assets	-	29
Accounts payable - trade	291	587
Accrued expenses and other current liabilities	(1,141)	(2,036 )
Net cash provided by operating activities	1,165	1,824
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(2,541)	(1,716 )
Loans and advances made to employees	(25 )	(20 )
Payments received on employee receivables	50	45
Proceeds from the sale of Ark Jupiter RI, LLC	-	2,474
Purchase of the Oyster House	-	(3,043 )
Net cash used in investing activities	(2,516)	(2,260 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(351 )	(663 )
Borrowings under credit facility	2,300	-
Dividends paid	(1,716)	(856 )
Proceeds from issuance of stock upon exercise of stock options	148	-
Distributions to non-controlling interests	(283 )	(622 )
Net cash provided by (used in) financing activities	98	(2,141 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,253)</b>	<b>(2,577 )</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	<b>1,406</b>	<b>7,239</b>
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b>\$ 153</b>	<b>\$ 4,662</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		

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Cash paid during the period for:		
Interest	\$227	\$ 101
Income taxes	\$2	\$ 37
Non-cash financing activities:		
Note payable in connection with the purchase of the Oyster House	\$-	\$ 8,000
Change in excess tax benefits from stock-based compensation	\$12	\$ (397 )

See notes to consolidated condensed financial statements.

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**ARK RESTAURANTS CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

December 30, 2017

(Unaudited)

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**1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The consolidated condensed balance sheet as of September 30, 2017, which has been derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended September 30, 2017 ("Form 10-K"), and the unaudited interim consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. All adjustments that, in the opinion of management are necessary for a fair presentation for the periods presented, have been reflected as required by Article 10 of Regulation S-X. Such adjustments are of a normal, recurring nature. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Form 10-K.

The Company had a working capital deficiency of \$18,197,000 at December 30, 2017 primarily as a result of our purchase of The Oyster House properties in November 2016 and costs associated with the renovation of our Sequoia property in Washington, DC. We believe that our existing cash balances, current banking facilities and cash provided by operations will be sufficient to meet our liquidity and capital spending requirements at least through February 13, 2019. In addition, the Company is in the process of negotiating an increase in the amounts available under its existing credit facility and refinancing outstanding borrowings over longer repayment periods. Such refinancing is expected to be completed in Q2 2018.

**USE OF ESTIMATES** — The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended December 30, 2017 are not necessarily indicative of the results to be expected for any other interim period or for the year ending September 29, 2018.

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

transactions have been eliminated in consolidation.

**RECLASSIFICATIONS** — Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's presentation of other income. As a result, comparative figures have been adjusted to conform to the current year's presentation.

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

**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 approximate the carrying value of such debt instruments.

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

**CONCENTRATIONS OF CREDIT RISK** — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company reduces credit risk by placing its cash and cash equivalents with major financial institutions with high credit ratings. At times, such amounts may exceed Federally insured limits. Accounts receivable are primarily comprised of normal business receivables, such as credit card receivables, that are paid off in a short period of time and amounts due from the hotel operators where the Company has a location, and are recorded when the products or services have been delivered. The Company reviews the collectability of its

receivables on an ongoing basis, and provides for an allowance when it considers the entity unable to meet its obligation. The concentration of credit risk with respect to accounts receivable is generally limited due to the short payment terms extended by the Company and the number of customers comprising the Company's customer base.

As of December 30, 2017 and September 30, 2017, the Company had accounts receivable balances due from two hotel operators totaling 48% and 39%, respectively, of total accounts receivable.

For the 13-week period ended December 30, 2017 the Company made purchases from one vendor that accounted for 10% of total purchases. For the 13-week period December 31, 2016, the Company did not make purchases from any one vendor that accounted for 10% or greater of total purchases.

**SEGMENT REPORTING** — As of December 30, 2017, the Company owned and operated 20 restaurants and bars, 19 fast food concepts and catering operations, exclusively in the United States, that have similar economic characteristics, nature of products and service, class of customers and distribution methods. The Company believes it meets the criteria for aggregating its operating segments into a single reporting segment in accordance with applicable accounting guidance.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED** — In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers. The guidance provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for the Company in the first quarter of fiscal 2019, which is when we plan to adopt these provisions. This update permits the use of either the retrospective or cumulative effect transition method, however we have not yet selected a transition method. Upon initial evaluation, we do not believe this guidance will impact our recognition of revenue from company-owned restaurants, which is our primary source of revenue. We are continuing to evaluate the effect this guidance will have on other, less significant revenue sources, including catering revenues. The Company continues to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may, in conjunction with the completion of the Company's overall assessment of the new guidance, impact the Company's current conclusions.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for the Company in the first quarter of fiscal 2020, which is when we plan to adopt these provisions. We plan to elect the available practical expedients on adoption and we expect our balance sheet presentation to be materially impacted upon adoption due to the recognition of right-of-use assets and lease liabilities for operating leases. We are continuing to evaluate the effect this guidance will have on our Consolidated Condensed Financial Statements and related disclosures.

In January 2017, the FASB issued guidance clarifying the definition of a business. The update provides that when substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The new rules will be effective for the Company in the first quarter of 2019. The Company is currently evaluating the potential impact adoption of this guidance on its Consolidated Condensed Financial Statements.

In January 2017, the FASB guidance simplifying the test for goodwill impairment. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. The new rules will be effective for the Company in the first quarter of 2021. The Company is currently evaluating the potential impact adoption of this guidance on its Consolidated Condensed Financial Statements.

## **2. VARIABLE INTEREST ENTITIES**

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

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

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	December 30, 2017	September 30, 2017
	(in thousands)	
Cash and cash equivalents	\$ 153	\$ 363
Accounts receivable	344	367
Inventories	27	22
Prepaid and refundable income taxes	228	226
Prepaid expenses and other current assets	57	63
Due from Ark Restaurants Corp. and affiliates (1)	628	534
Fixed assets - net	2	6
Other assets	71	71
Total assets	\$ 1,510	\$ 1,652
Accounts payable - trade	\$ 53	\$ 116
Accrued expenses and other current liabilities	310	260
Operating lease deferred credit	42	51
Total liabilities	405	427
Equity of variable interest entities	1,105	1,225
Total liabilities and equity	\$ 1,510	\$ 1,652

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

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

### 3. RECENT RESTAURANT EXPANSION

On November 30, 2016, the Company, through newly formed, wholly-owned subsidiaries, acquired the assets of the Original Oyster House, Inc., a restaurant and bar located in the City of Gulf Shores, Baldwin County, Alabama and the related real estate and an adjacent retail shopping plaza and the Original Oyster House II, Inc., a restaurant and bar located in the City of Spanish Fort, Baldwin County, Alabama and the related real estate. The total purchase price was for \$10,750,000 plus inventory of approximately \$293,000. The acquisition is accounted for as a business combination and was financed with a bank loan from the Company's existing lender in the amount of \$8,000,000 and cash from operations. The fair values of the assets acquired were allocated as follows (amounts in thousands):

Inventory	\$ 293
Land and buildings	6,650
Furniture, fixtures and equipment	395
Trademarks	1,720
Goodwill	1,985

\$ 11,043

The Consolidated Condensed Statements of Income for the 13-weeks ended December 30, 2017 include revenues and losses of approximately \$2,388,000 and (\$125,000), respectively, related to the *Oyster House* properties. The unaudited pro forma financial information set forth below is based upon the Company's historical Consolidated Condensed Statements of Income for the 13-weeks ended December 31, 2016 and includes the results of operations for the *Oyster House* properties for the period prior to acquisition. The unaudited pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the acquisition of the *Oyster House* properties occurred on the dates indicated, nor does it purport to represent the results of operations for future periods.

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13 Weeks Ended  
December 31,  
2016  
(unaudited)

Total revenues	\$ 40,233
Net income	\$ 1,941
Net income per share - basic	\$ 0.57
Net income per share - diluted	\$ 0.55
Basic	3,423
Diluted	3,507

#### 4. RECENT RESTAURANT DISPOSITIONS

*Lease Expirations* – The Company was advised by the landlord that it would have to vacate *The Grill at Two Trees* property at the Foxwoods Resort and Casino in Ledyard, CT, which had a no rent lease. The closure of this property occurred on January 1, 2017 and did not result in a material charge.

*Other* – On November 18, 2016, Ark Jupiter RI, LLC (“Ark Jupiter”), a wholly-owned subsidiary of the Company, entered into a ROFR Purchase and Sale Agreement (the “ROFR”) with SCFRC-HWG, LLC, the landlord (the “Seller”) to purchase the land and building in which the Company operates its *Rustic Inn* location in Jupiter, Florida. The Seller had entered into a Purchase and Sale Agreement with a third party to sell the premises; however, Ark Jupiter’s lease provided the Company with a right of first refusal to purchase the property. Ark Jupiter exercised the ROFR on October 4, 2016 and made a ten (10%) percent deposit on the purchase price of approximately Five Million Two Hundred Thousand Dollars (\$5,200,000). Concurrent with the execution of the ROFR, Ark Jupiter entered into a Purchase and Sale Agreement with 1065 A1A, LLC to sell this same property for Eight Million Two Hundred Fifty Thousand Dollars (\$8,250,000). In connection with the sale, Ark Jupiter and 1065 A1A, LLC entered into a temporary lease and sub-lease arrangement which expired on July 18, 2017. The Company vacated the space in June 2017. In connection with these transactions the Company recognized a gain in the amount of \$1,637,000 during the 13-weeks ended December 31, 2016.

The Company transferred its lease and the related assets of *Canyon Road* located in New York, NY to a former employee. In connection with this transfer, the Company recognized an impairment loss included in depreciation and amortization expense in the amount of \$75,000 for the 13-weeks ended December 31, 2016.

#### 5. INVESTMENT IN NEW MEADOWLANDS RACETRACK

On March 12, 2013, the Company made a \$4,200,000 investment in the New Meadowlands Racetrack LLC (“NMR”) through its purchase of a membership interest in Meadowlands Newmark, LLC, an existing member of NMR with a 63.7% ownership interest. On November 19, 2013, the Company invested an additional \$464,000 in NMR through a purchase of an additional membership interest in Meadowlands Newmark, LLC resulting in a total ownership of

11.6% of Meadowlands Newmark, LLC, and an effective ownership interest in NMR of 7.4%, subject to dilution. In 2015, the Company invested an additional \$222,000 in NMR and on February 7, 2017, the Company invested an additional \$222,000 in NMR, both as a result of capital calls, bringing its total investment to \$5,108,000 with no change in ownership. This investment has been accounted for based on the cost method.

In addition to the Company's ownership interest in NMR through Meadowlands Newmark, LLC, if casino gaming is approved at the Meadowlands and NMR is granted the right to conduct said gaming, neither of which can be assured, the Company shall be granted the exclusive right to operate the food and beverage concessions in the gaming facility with the exception of one restaurant.

In conjunction with this investment, the Company, through a 98% owned subsidiary, Ark Meadowlands LLC ("AM VIE"), also entered into a long-term agreement with NMR for the exclusive right to operate food and beverage concessions serving the new raceway facilities (the "Racing F&B Concessions") located in the new raceway grandstand constructed at the Meadowlands Racetrack in northern New Jersey. Under the agreement, NMR is responsible to pay for the costs and expenses incurred in the operation of the Racing F&B Concessions, and all revenues and profits thereof inure to the benefit of NMR. AM VIE receives an annual fee equal to 5% of the net profits received by NMR from the Racing F&B Concessions during each calendar year. At December 30, 2017, it was determined that AM VIE is a variable interest entity. However, based on qualitative consideration of the contracts with AM VIE, the operating structure of AM VIE, the Company's role with AM VIE, and that the Company is not obligated to absorb expected losses of AM VIE, the Company has concluded that it is not the primary beneficiary and not required to consolidate the operations of AM VIE.

The Company's maximum exposure to loss as a result of its involvement with AM VIE is limited to a receivable from AM VIE's primary beneficiary (NMR, a related party) which aggregated approximately \$5,000 and \$9,000 at December 30, 2017 and September 30, 2017, respectively, and are included in Prepaid Expenses and Other Current Assets in the Consolidated Condensed Balance Sheets.

On April 25, 2014, the Company loaned \$1,500,000 to Meadowlands Newmark, LLC. The note bears interest at 3%, compounded monthly and added to the principal, and is due in its entirety on January 31, 2024. The note may be prepaid, in whole or in part, at any time without penalty or premium. On July 13, 2016, the Company made an additional loan to Meadowlands Newmark, LLC in the amount of \$200,000. Such amount is subject to the same terms and conditions as the original loan as discussed above. The principal and accrued interest related to this note in the amounts of \$1,885,000 and \$1,871,000, are included in Investment In and Receivable From New Meadowlands Racetrack in the Consolidated Balance Sheets at December 30, 2017 and September 30, 2017, respectively.

In accordance with the cost method, our initial investment is recorded at cost and we record dividend income when applicable, if dividends are declared. We review our Investment in NMR each reporting period to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on its fair value, such as the defeat of the referendum for casino gaming in Northern New Jersey in November 2016. State law prohibits the issue from being put on the ballot before voters for the following two years. As a result, we performed an assessment of the recoverability of our indirect Investment in NMR as of September 30, 2017 which included estimates requiring significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management estimated include, among others, the probability of gambling being approved in Northern NJ which is the most heavily weighted assumption and NMR obtaining a license to operate a casino, revenue levels, cost of capital, marketing spending, tax rates and capital spending.

In performing this assessment, we estimated the fair value of our Investment in NMR using our best estimate of these assumptions which we believe would be consistent with what a hypothetical marketplace participant would use. The variability of these factors depends on a number of conditions, including uncertainty about future events and our inability as a minority shareholder to control certain outcomes and thus our accounting estimates may change from period to period. If other assumptions and estimates had been used when these tests were performed, impairment charges could have resulted. As a result of the above, no impairment was deemed necessary as of December 30, 2017.

## 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

December	September
30,	30,
2017	2017
(In thousands)	

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Sales tax payable	\$1,184	\$ 813
Accrued wages and payroll related costs	1,892	2,475
Customer advance deposits	2,782	4,186
Accrued occupancy and other operating expenses	3,177	2,702
	\$9,035	\$ 10,176

**7. NOTES PAYABLE – BANK**

Long-term debt consists of the following:

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	December 30, 2017	September 30, 2017
	(In thousands)	
Promissory Note - Rustic Inn purchase	\$2,156	\$2,290
Promissory Note - Shuckers purchase	3,000	3,083
Promissory Note - Oyster House purchase	6,533	6,667
	11,689	12,040
Less: Current maturities	(4,180 )	(4,174 )
Less: Unamortized deferred financing costs	(36 )	(42 )
Long-term debt	\$7,473	\$7,824

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

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

Also on October 22, 2015, the Company also entered into a credit agreement (the “Revolving Facility”) with BHBM which expires on October 21, 2019 and provides for total availability of the lesser of (i) \$10,000,000 and (ii) \$20,000,000 less the then aggregate amount of all indebtedness and obligations to BHBM. Borrowings under the Revolving Facility are evidenced by a promissory note (the “Revolving Note”) in favor of BHBM and will be payable over five years with interest at an annual rate equal to LIBOR plus 3.5% per year. On December 12, 2017, the Company amended its Revolving Facility to increase the total availability to be the lesser of (i) \$12,000,000 and (ii) \$22,000,000 less the then aggregate amount of all indebtedness and obligations to BHBM. As of December 30, 2017 and September 30, 2017, borrowings of \$8,498,000 and \$6,198,000 outstanding under the Revolving Facility had a weighted average interest rate of 5.0% and 4.7%, respectively.

On November 30, 2016, in connection with the acquisition of the *Oyster House* properties, the Company issued a promissory note under the Revolving Facility to BHBM for \$8,000,000. The note bears interest at LIBOR plus 3.5% per annum, and is payable in 60 equal monthly installments of \$133,273, commencing on January 1, 2017.

Deferred financing costs incurred in connection with the Revolving Facility in the amount of \$130,585 are being amortized over the life of the agreements on a straight-line basis and included in interest expense. Amortization

expense of approximately \$6,000 and \$11,000 is included in interest expense for the 13-weeks ended December 30, 2017 and December 31, 2016, respectively.

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

The loan agreements provide, among other things, that the Company meet minimum quarterly tangible net worth amounts, as defined, maintain a fixed charge coverage ratio of not less than 1.1:1 and minimum annual net income amounts, and contain customary representations, warranties and affirmative covenants. The agreements also contain customary negative covenants, subject to negotiated exceptions, on liens, relating to other indebtedness, capital expenditures, liens, affiliate transactions, disposal of assets and certain changes in ownership. The Company was in compliance with all of its financial covenants under the Revolving Facility as of December 30, 2017 except for the fixed charge coverage ratio covenant. On February 9, 2018, we were issued a waiver for this covenant as of December 30, 2017.

## 8. COMMITMENTS AND CONTINGENCIES

**Leases** — The Company leases several restaurants, bar facilities, and administrative headquarters through its subsidiaries under terms expiring at various dates through 2032. Most of the leases provide for the payment of base rents plus real estate taxes, insurance and other expenses and, in certain instances, for the payment of a percentage of the restaurant's sales in excess of stipulated amounts at such facility and in one instance based on profits.

On January 12, 2016, the Company entered into an Amended and Restated Lease for its *Sequoia* property in Washington D.C. extending the lease for 15 years through November 30, 2032 with one additional five-year option. Annual rent under the new lease is approximately \$1,200,000 increasing annually through expiration. Under the terms of the agreement, the property was closed January 1, 2017 for renovation and reconcepting which cost approximately \$11,000,000. In connection with this closure, the Company recognized an impairment loss related to fixed asset disposals in the amount of \$283,000, which is included in Depreciation and Amortization Expense for the 13-weeks ended December 31, 2016. The restaurant re-opened in June 2017.

**Legal Proceedings** — In the ordinary course of its business, the Company is a party to various lawsuits arising from accidents at its restaurants and worker’s compensation claims, which are generally handled by the Company’s insurance carriers. The employment by the Company of management personnel, waiters, waitresses and kitchen staff at a number of different restaurants has resulted, from time to time, in litigation alleging violation by the Company of employment discrimination laws. Management believes, based in part on the advice of counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

**Share Repurchase Plan** — On July 5, 2016, the Board of Directors authorized a share repurchase program authorizing management to purchase up to 500,000 shares of the Company’s common stock during the next twelve months. Any repurchase under the program will be effected in compliance with Rule 10b-18 under the Securities Exchange Act of 1934 “Purchases of Certain Equity Securities by the Issuer and Others”, funded using the Company’s working capital and be based on management’s evaluation of market conditions and other factors. No repurchases were made during the 13-weeks ended December 30, 2017 and December 31, 2016.

## 9. STOCK OPTIONS

The Company has options outstanding under two stock option plans, the 2004 Stock Option Plan (the “2004 Plan”) and the 2010 Stock Option Plan (the “2010 Plan”), which was approved by shareholders in the second quarter of 2010. Effective with this approval, the Company terminated the 2004 Plan. This action terminated the 400 authorized but unissued options under the 2004 Plan, but it did not affect any of the options previously issued under the 2004 Plan. Options granted under the 2004 Plan are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire ten years after the date of grant. Options granted under the 2010 Plan are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire ten years after the date of grant.

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

During the quarter ended December 31, 2016, options to purchase 90,000 shares of common stock at an exercise price of \$32.15 per share expired unexercised.

No options or performance-based awards were granted during the 13-week period ended December 30, 2017.

A summary of stock option activity is presented below:

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	2018	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of period	421,800	\$ 17.86	5.2 Years	
Options:				
Granted	-			
Exercised	(7,500 )	\$ 19.71		
Canceled or expired	-			
Outstanding and expected to vest, end of period	414,300	\$ 17.83	4.9 Years	\$3,812,249
Exercisable, end of period	414,300	\$ 17.83	4.9 Years	\$3,812,249

No compensation costs are included in the Consolidated Condensed Statements of Income as all has been previously recognized

## 10.

## INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Acts (“TCJA”) was enacted into law. The new legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018, as well as a variety of other changes including limitation of the tax deductibility of interest expense, acceleration of expensing of certain business assets and reductions in the amount of executive pay that could qualify as a tax deduction. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. As such, for the 13-weeks ended December 30, 2017, the Company revised its estimated annual effective rate to reflect the change in the federal statutory rate from 34% to 21%. The rate change is administratively effective at the beginning of our fiscal year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year is 24%.

The SEC issued SAB 118, which provides guidance on accounting for the tax effects of TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under ASC 740. To the extent that a company’s accounting for certain income tax effects of the TCJA is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

We have recorded a provisional increase to our deferred tax assets and liabilities to reflect the new corporate tax rate. As a result, income tax expense reported for the first three months was adjusted to reflect the effects of the change in the tax law and resulted in a discrete income tax benefit of approximately \$1.2 million during the first quarter. While we were able to make a reasonable estimate of the impact of the reduction in the corporate tax rate, it may be affected by other analyses related to the TCJA.

The income tax provisions for the 13-week periods ended December 30, 2017 and December 31, 2016 reflect effective tax rates of approximately (162.5)% and 30%, respectively. The Company expects its effective tax rate for its current fiscal year to be lower than the statutory rate as a result of the generation of FICA tax credits, operating income attributable to the non-controlling interests of the VIEs that is not taxable to the Company, and the one-time remeasurement of our deferred tax assets and liabilities for the TCJA. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates.

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

During the 13-weeks ended December 31, 2016, certain equity compensation awards expired unexercised. As such, the Company reversed the related deferred tax asset in the amount of approximately \$397,000 as a charge to Additional Paid-in Capital as there was a sufficient pool of windfall tax benefit available.

## **11. INCOME PER SHARE OF COMMON STOCK**

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

For the 13-week period ended December 30, 2017, options to purchase 64,000 shares of common stock at an exercise price of \$12.04 per share, options to purchase 156,300 shares of common stock at an exercise price of \$14.40 per share and options to purchase 194,000 shares of common stock at an exercise price of \$22.50 per share were included in diluted earnings per share.

For the 13-week period ended December 31, 2016, options to purchase 66,000 shares of common stock at an exercise price of \$12.04 per share and options to purchase 160,800 shares of common stock at an exercise price of \$14.40 per share were included in diluted earnings per share. Options to purchase 201,808 shares of common stock at an exercise price of \$22.50 per share were not included in diluted earnings per share as their impact would be anti-dilutive.

## **12. DIVIDENDS**

On December 5, 2017, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on January 3, 2018 to shareholders of record at the close of business on December 19, 2017. The Company intends to continue to pay such quarterly cash dividends for the foreseeable future, however, the payment of future dividends is at the discretion of the Company's Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

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

**Overview**

As of December 30, 2017, the Company owned and operated 20 restaurants and bars, 19 fast food concepts and catering operations, exclusively in the United States, that have similar economic characteristics, nature of products and service, class of customer and distribution methods. The Company believes it meets the criteria for aggregating its operating segments into a single reporting segment in accordance with applicable accounting guidance. The Consolidated Condensed Statements of Income for the 13-weeks ended December 30, 2017 and December 31, 2016 include revenues and losses of approximately \$2,388,000 and (\$125,000) and \$707,000 and (\$52,000), respectively, related to the *Oyster House* properties, which were acquired on November 30, 2016.

*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 30, 2017 and December 31, 2016 each included 13 weeks.

*Seasonality*

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

*Results of Operations*

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The Company's operating income for the 13 weeks ended December 30, 2017 was \$882,000 as compared to \$2,970,000 for the 13 weeks ended December 30, 2016. This decrease resulted primarily from the recognition of a gain in the prior period in connection with the sale of the real estate underlying our Rustic Inn, Jupiter, FL property combined with increases in costs and expenses as discussed below.

The following table summarizes the significant components of the Company's operating results for the 13-week periods ended December 30, 2017 and December 31, 2016, respectively:

	13 Weeks Ended		Variance	
	December	December	\$	%
	30,	31,		
	2017	2016		
	(in thousands)			
<b>REVENUES:</b>				
Food and beverage sales	\$38,617	\$37,953	\$664	1.7 %
Other revenue	735	467	268	57.4 %
Total revenues	39,352	38,420	932	2.4 %
<b>COSTS AND EXPENSES:</b>				
Food and beverage cost of sales	10,230	9,750	480	4.9 %
Payroll expenses	13,710	12,956	754	5.8 %
Occupancy expenses	5,031	4,732	299	6.3 %
Other operating costs and expenses	5,117	4,866	251	5.2 %
General and administrative expenses	3,079	3,300	(221 )	-6.7 %
Depreciation and amortization	1,303	1,483	(180 )	-12.1 %
Total costs and expenses	38,470	37,087	1,383	3.7 %
RESTAURANT OPERATING INCOME	882	1,333	(451 )	-33.8 %
Gain on sale of Rustic Inn, Jupiter	-	1,637	(1,637)	N/A
OPERATING INCOME	\$882	\$2,970	\$(2,088)	-70.3 %

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## Revenues

During the Company's 13-week period ended December 30, 2017, revenues increased 2.4% as compared to revenues in the 13-week period ended December 31, 2016. This increase resulted primarily from the same-store sales impacts discussed below.

### Food and Beverage Same-Store Sales

On a Company-wide basis, same-store sales increased 2.2% during the first fiscal quarter of 2018 as compared to the same period last year as follows:

	13 Weeks Ended		Variance		
	December 30, 2017	December 31, 2016	\$	%	
	(in thousands)				
Las Vegas	\$ 11,690	\$ 11,342	\$ 348	3.1	%
New York	11,312	11,177	135	1.2	%
Washington, DC	3,078	2,842	236	8.3	%
Atlantic City, NJ	1,574	1,640	(66 )	-4.0	%
Boston	787	907	(120)	-13.2	%
Connecticut	505	514	(9 )	-1.8	%
Alabama	778	707	71	10.0	%
Florida	6,013	5,829	184	3.2	%
Same-store sales	35,737	34,958	\$ 779	2.2	%
Other	2,880	2,995			
Food and beverage sales	\$ 38,617	\$ 37,953			

Same-store sales in Las Vegas increased 3.1% primarily as a result of increased traffic near the properties where we operate our restaurants in connection with the opening of the T-Mobile Arena nearby. Same-store sales in New York increased 1.2%, primarily as a result of good weather conditions during the months in which our properties with outdoor seating areas are open. Same-store sales in Washington, DC increased 8.3% as a result of the re-opening of *Sequoia DC* in June 2017 which was preparing to close for renovation on January 4, 2017. Same-store sales in Atlantic City decreased 4.0%, primarily due to decreased traffic at properties in which we operate our restaurants. Same-store sales in Boston decreased 13.2%, primarily as a result of decreased traffic at Faneuil Hall Marketplace where our property is located. Same-store sales in Alabama increased 10.0%, which represent only December sales, primarily as a result of increased traffic at our properties. Same-store sales in Florida increased 3.2% as a result of the completion of the road construction project started in the second quarter of fiscal 2016 by the local municipality near *The Rustic Inn* in Dania Beach, FL. Other food and beverage sales consist of sales related to new restaurants opened or acquired during the applicable period (e.g. the *Oyster House* properties) and sales related to properties that were

closed due to lease expiration and other closures.

### Costs and Expenses

Costs and expenses for the 13-weeks ended December 30, 2017 and December 31, 2016 were as follows (in thousands):

	13 Weeks Ended December 30, 2017	% to Total Revenues	%	13 Weeks Ended December 31, 2016	% to Total Revenues	%	<b>Increase (Decrease)</b>	
							\$	%
Food and beverage cost of sales	\$ 10,230	26.0	%	\$ 9,750	25.4	%	\$480	4.9 %
Payroll expenses	13,710	34.8	%	12,956	33.7	%	754	5.8 %
Occupancy expenses	5,031	12.8	%	4,732	12.3	%	299	6.3 %
Other operating costs and expenses	5,117	13.0	%	4,866	12.7	%	251	5.2 %
General and administrative expenses	3,079	7.8	%	3,300	8.6	%	(221 )	-6.7 %
Depreciation and amortization	1,303	3.3	%	1,483	3.9	%	(180 )	-12.1 %
	\$ 38,470			\$ 37,087			\$1,383	

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The increases in food and beverage costs as a percentage of total revenues for the 13-weeks ended December 30, 2017 compared to the same periods of last year are primarily the result of higher food costs as a percentage of sales associated with *The Oyster House* properties, which were acquired on November 30, 2016, seafood restaurants which, consistent with the industry, operate at a higher food cost structure.

Payroll expenses as a percentage of total revenues for the 13-weeks December 30, 2017 increased as compared to the same period of last year primarily as a result of minimum wage increases associated with changes to labor laws.

Occupancy expenses as a percentage of total revenues for the 13-weeks ended December 30, 2017 increased as compared to the same period of last year primarily as a result of increased sales at properties where rents are paid based on a percentage of sales.

Other operating costs and expenses as a percentage of total revenues for the 13-weeks ended December 30, 2017 increased as compared to the same period of last year as a result fixed costs associated with properties where sales declined.

General and administrative expenses (which relate solely to the corporate office in New York City) as a percentage of total revenues for the 13-weeks ended December 30, 2017 decreased slightly compared to the same period of last year as a result of transaction costs in the prior period incurred in connection with the purchase of the *Oyster House* properties.

Depreciation and amortization expense for the 13-weeks ended December 30, 2017 decreased as compared to the same period of last year as a result of additional depreciation in the amount of \$358,000 related to asset write-offs at *Sequoia* (which was undergoing a major renovation) and *Canyon Road* (whose lease was transferred to an unrelated party) in the prior period.

## **Income Taxes**

On December 22, 2017, the Tax Cuts and Jobs Acts (“TCJA”) was enacted into law. The new legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018, as well as a variety of other changes including limitation of the tax deductibility of interest expense, acceleration of expensing of certain business assets and reductions in the amount of executive pay that could qualify as a tax deduction. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. As such, for the quarter ended December 30, 2017, the Company revised its estimated annual effective rate to reflect the change in the federal statutory rate from 34% to 21%. The rate change is administratively effective at the beginning of our fiscal year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year is 24%.



The SEC issued SAB 118, which provides guidance on accounting for the tax effects of TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under ASC 740. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statement.

We have recorded a provisional increase to our deferred tax assets and liabilities to reflect the new corporate tax rate. As a result, income tax expense reported for the first three months was adjusted to reflect the effects of the change in the tax law and resulted in a discrete income tax benefit of \$1.2 million during the first quarter. While we were able to make a reasonable estimate of the impact of the reduction in the corporate tax rate, it may be affected by other analyses related to the TCJA.

The income tax provisions for the 13-week periods ended December 30, 2017 and December 31, 2016 reflect effective tax rates of approximately (162.5)% and 30%, respectively. The Company expects its effective tax rate for its current fiscal year to be lower than the statutory rate as a result of the generation of FICA tax credits, operating income attributable to the non-controlling interests of the VIEs that is not taxable to the Company, and the one-time remeasurement of our deferred tax assets and liabilities for the TCJA. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates.

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

### **Liquidity and Capital Resources**

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

Net cash provided by operating activities for the 13-weeks ended December 30, 2017 decreased to \$1,165,000 as compared to \$1,824,000 provided by operations in the same period of last year. This decrease was attributable to changes in net working capital

primarily related to accounts receivable, prepaid, refundable and accrued income taxes and accounts payable and accrued expenses.

Net cash used in investing activities for the 13-week period ended December 30, 2017 was \$2,516,000 and resulted primarily from purchases of fixed assets at existing restaurants.

Net cash used in investing activities for the 13-week period ended December 31, 2016 was \$2,260,000 and resulted primarily from purchases of fixed assets at existing restaurants and the cash portion of the purchase of the Oyster House properties in the amount of \$3,043,000, partially offset by the net proceeds in the amount of \$2,474,000 from the sale of The Rustic Inn in Jupiter, Florida.

Net cash provided by (used in) financing activities for the 13-week periods ended December 30, 2017 and December 31, 2016 of \$98,000 and (\$2,141,000), respectively, resulted primarily from the payment of dividends, principal payments on notes payable and distributions to non-controlling interests, offset by borrowings under the credit facility.

The Company had a working capital deficiency of \$18,197,000 at December 30, 2017 as compared with a deficiency of \$16,072,000 at September 30, 2017. This increase resulted primarily from costs associated with the renovation of our *Sequoia* property in Washington, DC. We believe that our existing cash balances, current banking facilities and cash provided by operations will be sufficient to meet our liquidity and capital spending requirements at least through February 13, 2019. In addition, the Company is in the process of negotiating an increase in the amounts available under the existing credit facility and refinancing outstanding borrowings over longer repayment periods. Such refinancing is expected to be completed in the second fiscal quarter of 2018.

On December 5, 2017, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on January 3, 2018 to shareholders of record at the close of business on December 19, 2017. The Company intends to continue to pay such quarterly cash dividends for the foreseeable future, however, the payment of future dividends is at the discretion of the Company's Board of Directors and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors.

The Company was in compliance with all of its financial covenants under the Revolving Facility as of December 30, 2017 except for the fixed charge coverage ratio covenant. On February 9, 2018, we were issued a waiver for this covenant as of December 30, 2017.

### **Recent Restaurant Expansion**

On November 30, 2016, the Company, through newly formed, wholly-owned subsidiaries, acquired the assets of the Original Oyster House, Inc., a restaurant and bar located in the City of Gulf Shores, Baldwin County, Alabama and the related real estate and an adjacent retail shopping plaza and the Original Oyster House II, Inc., a restaurant and bar located in the City of Spanish Fort, Baldwin County, Alabama and the related real estate. The total purchase price was for \$10,750,000 plus inventory of approximately \$293,000. The acquisition is accounted for as a business combination and was financed with a bank loan from the Company's existing lender in the amount of \$8,000,000 and cash from operations.

### **Recent Restaurant Dispositions**

**Lease Expirations** – The Company was advised by the landlord that it would have to vacate *The Grill at Two Trees* property at the Foxwoods Resort and Casino in Ledyard, CT, which had a no rent lease. The closure of this property occurred on January 1, 2017 and did not result in a material charge.

**Other** – On November 18, 2016, Ark Jupiter RI, LLC (“Ark Jupiter”), a wholly-owned subsidiary of the Company, entered into a ROFR Purchase and Sale Agreement (the “ROFR”) with SCFRC-HWG, LLC, the landlord (the “Seller”) to purchase the land and building in which the Company operates its *Rustic Inn* location in Jupiter, Florida. The Seller had entered into a Purchase and Sale Agreement with a third party to sell the premises; however, Ark Jupiter's lease provided the Company with a right of first refusal to purchase the property. Ark Jupiter exercised the ROFR on October 4, 2016 and made a ten (10%) percent deposit on the purchase price of approximately Five Million Two Hundred Thousand Dollars (\$5,200,000). Concurrent with the execution of the ROFR, Ark Jupiter entered into a Purchase and Sale Agreement with 1065 A1A, LLC to sell this same property for Eight Million Two Hundred Fifty Thousand Dollars (\$8,250,000). In connection with the sale, Ark Jupiter and 1065 A1A, LLC entered into a temporary lease and sub-lease arrangement which expired on July 18, 2017. The Company vacated the space in June. In connection with these transactions the Company recognized a gain in the amount of \$1,637,000 during the 13-weeks ended December 31, 2016.

The Company transferred its lease and the related assets of *Canyon Road* located in New York, NY to a former employee. In connection with this transfer, the Company recognized an impairment loss included in depreciation and amortization expense in the amount of \$75,000 for the 13-weeks ended December 31, 2016.

## **Critical Accounting Policies**

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

The Company's critical accounting policies are described in the Company's Form 10-K for the year ended September 30, 2017. There have been no significant changes to such policies during fiscal 2018 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 2018 and the expected dates of adoption and the anticipated impact on the Consolidated Condensed Financial Statements.

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

The Company purchases commodities such as chicken, beef, lobster, crabs and shrimp for the Company's restaurants. The prices of these commodities may be volatile depending upon market conditions. The Company does not purchase forward commodity contracts because the changes in prices for these items have historically been short-term in nature and, in the Company's view, the cost of the contracts is in excess of the benefits.

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

## **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 30, 2017 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 2018 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 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 30, 2017 (the "2017 Form 10-K"). There have been no material changes to the risk factors previously disclosed in the 2017 Form 10-K. The risks described in the 2017 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to management may materially adversely affect the Company's business, financial condition, and/or operating results.

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

None.

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

None.

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

Not Applicable.

#### **Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certificate of Chief Executive and Chief Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

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

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**SIGNATURES**

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

Date: February 13, 2018

**ARK RESTAURANTS CORP.**

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

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

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