

FLANIGANS ENTERPRISES INC  
Form 10-Q  
August 16, 2011

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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, 2011

OR

o 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)

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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 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

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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, 2011, 1,861,097 shares of Common Stock, \$0.10 par value per share, were outstanding.

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

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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).

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (in thousands, except per share amounts)

|   | Thirteen Weeks Ended |              | Thirty Nine Weeks Ended |              |
|---|----------------------|--------------|-------------------------|--------------|
|   | July 2, 2011         | July 3, 2010 | July 2, 2011            | July 3, 2010 |
| <b>REVENUES:</b>  |                      |              |                         |              |
| Restaurant food sales   | \$ 11,712            | \$ 11,247    | \$ 34,795               | \$ 33,801    |
| Restaurant bar sales  | 2,958                | 2,864        | 8,937                   | 8,534        |
| Package store sales   | 3,117                | 2,963        | 10,321                  | 10,151       |
| Franchise related revenues  | 233                  | 220          | 736                     | 756          |
| Owner's fee   | 39                   | 42           | 123                     | 125          |
| Other operating income  | 61                   | 38           | 160                     | 109          |
|   | 18,120               | 17,374       | 55,072                  | 53,476       |
| <b>COSTS AND EXPENSES:</b>  |                      |              |                         |              |
| Cost of merchandise sold:   |                      |              |                         |              |
| Restaurant and lounges  | 5,081                | 4,810        | 14,974                  | 14,368       |
| Package goods   | 2,093                | 1,929        | 6,821                   | 6,774        |
| Payroll and related costs   | 5,491                | 5,108        | 16,492                  | 15,580       |
| Occupancy costs   | 1,079                | 1,064        | 3,190                   | 3,146        |
| Selling, general and administrative expenses                      | 3,554                | 3,429        | 10,898                  | 10,468       |
|   | 17,298               | 16,340       | 52,375                  | 50,336       |
| Income from Operations  | 822                  | 1,034        | 2,697                   | 3,140        |
| <b>OTHER INCOME (EXPENSE):</b>                                    |                      |              |                         |              |
| Interest expense  | (160 )               | (120 )       | (457 )                  | (355 )       |
| Interest and other income   | 31                   | 22           | 335                     | 69           |
|   | (129 )               | (98 )        | (122 )                  | (286 )       |
| Income before Provision for Income Taxes                          | 693                  | 936          | 2,575                   | 2,854        |
| Provision for Income Taxes  | (175 )               | (214 )       | (635 )                  | (610 )       |
| Net Income before income attributable to noncontrolling interests | 518                  | 722          | 1,940                   | 2,244        |
| Less: Net income attributable to noncontrolling interests         | \$ (173 )            | \$ (296 )    | \$ (510 )               | \$ (860 )    |
| Net Income attributable to stockholders                           | \$ 345               | \$ 426       | \$ 1,430                | \$ 1,384     |

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 2011         | July 3, 2010 | July 2, 2011            | July 3, 2010 |
| Net Income Per Common Share:           |                      |              |                         |              |
| Basic and Diluted                      | \$ 0.19              | \$ 0.23      | \$ 0.77                 | \$ 0.74      |
| Weighted Average Shares and Equivalent |                      |              |                         |              |
| Shares Outstanding                     |                      |              |                         |              |
| Basic and Diluted                      | 1,860,907            | 1,861,735    | 1,861,173               | 1,862,004    |

See accompanying notes to unaudited condensed consolidated financial statements.

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 JULY 2, 2011 (UNAUDITED) AND OCTOBER 2, 2010  
 (in thousands)

## ASSETS

|                                   | July 2,<br>2011 | October 2, 2010  |
|-----------------------------------|-----------------|------------------|
| <b>CURRENT ASSETS:</b>            |                 |                  |
| Cash and cash equivalents         | \$4,770         | \$ 6,447         |
| Prepaid income taxes              | 124             | --               |
| Due from franchisees              | --              | 2                |
| Other receivables                 | 75              | 193              |
| Inventories                       | 2,307           | 1,985            |
| Prepaid expenses                  | 1,138           | 786              |
| Deferred tax asset                | 343             | 341              |
| <b>Total Current Assets</b>       | <b>8,757</b>    | <b>9,754</b>     |
| Property and Equipment, Net       | 26,442          | 23,995           |
| Investment in Limited Partnership | 141             | 140              |
| <b>OTHER ASSETS:</b>              |                 |                  |
| Liquor licenses, net              | 470             | 470              |
| Deferred tax asset                | 819             | 879              |
| Leasehold purchases, net          | 1,284           | 1,445            |
| Other                             | 1,066           | 631              |
| <b>Total Other Assets</b>         | <b>3,639</b>    | <b>3,425</b>     |
| <b>Total Assets</b>               | <b>\$38,979</b> | <b>\$ 37,314</b> |

See accompanying notes to unaudited condensed consolidated financial statements.



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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
JULY 2, 2011 (UNAUDITED) AND OCTOBER 2, 2010  
(in thousands)

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

|   | July 2,<br>2011 | October 2, 2010  |
|---|-----------------|------------------|
| <b>CURRENT LIABILITIES:</b>   |                 |                  |
| Accounts payable and accrued expenses   | \$4,594         | \$ 4,607         |
| Income taxes payable  | --              | 269              |
| Due to franchisees  | 884             | 649              |
| Current portion of long term debt   | 1,262           | 815              |
| Deferred revenues   | --              | 7                |
| Current portion of deferred rent  | 14              | 26               |
| <b>Total Current Liabilities</b>  | <b>6,754</b>    | <b>6,373</b>     |
| Long Term Debt, Net of Current Maturities   | 7,882           | 7,238            |
| Deferred Rent, Net of Current Portion   | 173             | 180              |
| Commitments and Contingencies   |                 |                  |
| <b>Equity:</b>  |                 |                  |
| 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   | 16,698          | 15,456           |
| Treasury stock, at cost, 2,336,545 shares at July 2, 2011 and 2,335,727 shares at October 2, 2010 | (6,055 )        | (6,049 )         |
| <b>Total Flanigan's Enterprises, Inc. stockholders' equity</b>                                    | <b>17,303</b>   | <b>16,067</b>    |
| Noncontrolling interest   | 6,867           | 7,456            |
| <b>Total equity</b>   | <b>24,170</b>   | <b>23,523</b>    |
| <b>Total liabilities and equity</b>   | <b>\$38,979</b> | <b>\$ 37,314</b> |

See accompanying notes to unaudited condensed consolidated financial statements.



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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THIRTY-NINE WEEKS ENDED JULY 2, 2011 AND JULY 3, 2010  
 (in thousands)

|  | July 2,<br>2011 | July 3,<br>2010 |
|--|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                 |                 |
| Net income   | \$1,940         | \$2,244         |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: |                 |                 |
| Depreciation and amortization  | 1,776           | 1,667           |
| Amortization of leasehold purchases  | 161             | 162             |
| Loss on abandonment of property and equipment  | 18              | 10              |
| Gain on sale of guaranteed leasehold interest  | (231 )          | --              |
| Deferred income tax  | 58              | (25 )           |
| Deferred rent  | (19 )           | (18 )           |
| Income from unconsolidated limited partnership   | (10 )           | (12 )           |
| Recognition of deferred revenue  | (7 )            | (10 )           |
| Changes in operating assets and liabilities:   |                 |                 |
| (increase) decrease in   |                 |                 |
| Due from franchisees   | 2               | --              |
| Other receivables  | 110             | (13 )           |
| Prepaid income taxes   | (124 )          | 332             |
| Inventories  | (322 )          | (588 )          |
| Prepaid expenses   | 729             | 353             |
| Other assets   | (456 )          | 38              |
| Increase (decrease) in:  |                 |                 |
| Accounts payable and accrued expenses  | (13 )           | 841             |
| Income taxes payable   | (269 )          | 198             |
| Due to franchisees   | 235             | 461             |
| Net cash and cash equivalents provided by operating activities:  | 3,579           | 5,640           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                 |                 |
| Collection on notes and mortgages receivable   | 8               | 14              |
| Purchase of property and equipment   | (4,043 )        | (1,546 )        |
| Deposit on property and equipment  | (73 )           | --              |
| Proceeds from the sale of fixed assets   | 18              | 9               |
| Proceeds from sale of guaranteed leasehold interest  | 231             | --              |
| Distributions from unconsolidated limited Partnerships   | 9               | 9               |
| Purchase of limited partnership interests  | --              | (10 )           |
| Net cash and cash equivalents used in investing activities:  | (3,850 )        | (1,524 )        |

See accompanying notes to unaudited condensed consolidated financial statements

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THIRTY-NINE WEEKS ENDED JULY 2, 2011 AND JULY 3, 2010  
 (in thousands)

(Continued)

|   | July 2,<br>2011 | July 3, 2010 |
|---|-----------------|--------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                            |                 |              |
| Payment of long term debt   | (963 )          | (750 )       |
| Proceeds from debt  | 850             | --           |
| Dividends paid  | (188 )          | --           |
| Purchase of treasury stock  | (6 )            | (6 )         |
| Distributions to limited partnership<br>minority partners               | (1,099 )        | (895 )       |
| Net cash and cash equivalents used in<br>financing activities:          | (1,406 )        | (1,651 )     |
|   |                 |              |
| Net Increase (Decrease) in Cash and Cash Equivalents                    | (1,677 )        | 2,465        |
|   |                 |              |
| Beginning of Period   | 6,447           | 4,580        |
|   |                 |              |
| End of Period   | \$4,770         | \$ 7,045     |
|   |                 |              |
| Supplemental Disclosure for Cash Flow Information:                      |                 |              |
| Cash paid during period for:  |                 |              |
| Interest  | \$457           | \$ 355       |
| Income taxes  | \$971           | \$ 104       |
|   |                 |              |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: |                 |              |
| Financing of insurance contracts  | \$1,082         | \$ 409       |
| Purchase deposits transferred to property and<br>equipment              | \$28            | \$ 20        |
| Purchase of property in exchange for debt                               | \$122           | \$ 850       |
| Purchase of assets of franchised restaurant                             | --              | \$ 262       |
| Purchase of vehicle in exchange for debt                                | --              | \$ 45        |

See accompanying notes to unaudited condensed consolidated financial statements

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 2, 2011

(1) BASIS OF PRESENTATION:

The accompanying condensed consolidated financial information for the periods ended July 2, 2011 and July 3, 2010 are unaudited. Financial information as of October 2, 2010 has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles. 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 2, 2010. 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 nine 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 nine limited partnerships.

These 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" (Topic 260). This section provides for the calculation of basic and diluted earnings per share. The data on Page 3 shows 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, 2011 and July 3, 2010, no stock options were outstanding.

(3) RECLASSIFICATION:

Certain amounts in the fiscal year 2010 financial statements have been reclassified to conform to the fiscal year 2011 presentation. The reclassifications had no effect on consolidated net income.

(4) RECENT ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

Adopted

In June 2009, the FASB issued changes to the accounting for determining whether an entity is a variable interest entity and modified the methods allowed for determining the primary beneficiary of a variable interest entity. In addition, these changes require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and enhanced disclosures related to an enterprise's



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involvement in a variable interest entity. These changes which became effective for annual periods beginning after November 15, 2009, were adopted by us in the first quarter of our fiscal year 2011 and did not have a material impact on our consolidated financial statements.

Issued

In May 2011, the FASB issued an update to Topic 820 - "Fair Value Measurements and Disclosures of the Accounting Standards Codification". This update provides guidance on how fair value accounting should be applied where its use is already required or permitted by other standards and does not extend the use of fair value accounting. The Company will adopt this guidance effective in fiscal year 2013 as required and does not expect the adoption to have a significant impact on our consolidated financial statements.

(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) EXTENSION OF MANAGEMENT AGREEMENT:

During the third quarter of our fiscal year 2011, the term of our management agreement for "The Whale's Rib", a casual dining restaurant located in Deerfield Beach, Florida, was extended through January 9, 2036. As a part of the consideration for the extension of the management agreement, we agreed to eliminate our right to terminate the management agreement upon thirty (30) days written notice, with or without cause, but retained the right to terminate in the event our outstanding funded operating losses exceeded \$100,000 cumulatively, at any time during the term of the management agreement.

(7) STOCK OPTION PLANS:

We have one stock option plan under which qualified stock options may be granted to our officers and other employees. Under this plan, the exercise price for the qualified stock options must be no less than 100% of the fair market value of the Company's common stock on the date the options are granted. In general, options granted under our stock option plan expire after a five (5) year period and generally vest no later than one (1) year from the date of grant. As of July 2, 2011, no options to acquire shares were outstanding. Under this plan, options to acquire an aggregate of 45,000 shares are available for grant.

There was no stock option activity during the thirty nine weeks ended July 2, 2011, nor was there stock option activity during the thirty nine weeks ended July 3, 2010.

(8) ACQUISITIONS:

Purchase of Company Common Stock

During the thirteen weeks ended July 2, 2011, we did not purchase any shares of our common stock. During the thirteen weeks ended July 3, 2010, we purchased 18 shares of our common stock for an aggregate purchase price of \$131. During the thirty nine weeks ended July 2, 2011, we purchased 818 shares of our common stock for an aggregate purchase price of \$6,500. Of the stock purchased, we





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purchased 18 shares from an unrelated shareholder in an off the market private transaction for an aggregate purchase price of \$152 and 800 shares from the Joseph G. Flanigan Charitable Trust for an aggregate purchase price of \$6,400 in an off the market private transaction. During the thirty nine weeks ended July 3, 2010, we purchased 1,018 shares of our common stock for an aggregate purchase price of \$6,000. Of the stock purchased, we purchased 18 shares in a private transaction for an aggregate purchase price of \$131 and 1,000 shares of our common stock from the Joseph G. Flanigan Charitable Trust for an aggregate purchase price of \$6,000. All repurchases of our common stock were consummated in connection with a discretionary plan approved by the Board of Directors in May, 2007.

(9) COMMITMENTS AND CONTINGENCIES:

Guarantees

We guarantee various leases for franchisees and locations sold in prior years. Remaining rental commitments required under these leases are approximately \$437,000. In the event of a default under any of these agreements, we will have the right to repossess the premises and operate the business to recover amounts paid under the guarantee either by liquidating assets or operating the business.

We account for such lease guarantees in accordance with ASC Topic 460. Under ASC Topic 460, we would be required to recognize the fair value of guarantees issued or modified after December 31, 2002, for non-contingent guarantee obligations, and also a liability for contingent guarantee obligations based on the probability that the guaranteed party will not perform under the contractual terms of the guaranty agreement.

We do not believe it is probable that we will be required to perform under the remaining lease guarantees and therefore, no liability has been accrued in our condensed consolidated financial statements.

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.

We own the building where our corporate offices are located. On April 16, 2001, we filed suit against the owner of the adjacent shopping center to determine our right to non-exclusive parking in the shopping center. During fiscal year 2007, the appellate court affirmed and upon re-hearing, again affirmed the granting of a summary judgment in favor of the shopping center. The seller from whom we purchased the building was named as a defendant in the lawsuit by the owner of the adjacent shopping center and we filed and served a cross-complaint against the seller. During the fourth quarter of our fiscal year 2009, the seller was awarded reimbursement of its attorneys’ fees and costs in the amount of \$109,000 and during the second quarter of our fiscal year 2010, the trial court denied our motion for re-consideration of a portion of the award. During the third quarter of our fiscal year 2010, we paid the award of attorneys’ fees and costs. During the second quarter of our fiscal year 2009, the seller filed suit against us for malicious prosecution. During the second quarter of our fiscal year 2010, the court denied the seller’s motion for punitive damages. Subsequent to the end of the third quarter of our fiscal year 2011, we settled the suit with a payment of \$2,500.

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## (10) SUBSEQUENT EVENTS:

Subsequent to the end of the third quarter of our fiscal year 2011, we purchased the operating assets of the limited partnership which owned and operated the “Flanigan’s Seafood Bar and Grill” restaurant located in the former “Howard Johnson’s Hotel” in Stuart, Florida. We paid the limited partnership the sum of \$300,000, plus we forgave all amounts owed to us by the limited partnership, (\$311,000 as of July 30, 2011), including amounts to be incurred by the limited partnership in connection with the wind down of the limited partnership’s business. On July 31, 2011, this restaurant began operating as a Company-owned unit.

Subsequent events have been evaluated through the date these condensed consolidated financial statements were issued. No events, other than the event disclosed above, required disclosure.

## (11) 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, 2011 and July 3, 2010, and identifiable assets for the two reportable segments in which we operate, are shown in the following table. Operating income is total revenue less cost of merchandise sold and operating expenses relative to each segment. In computing operating income, none of the following items have been included: interest expense, other non-operating income and expenses and income taxes. 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.

|   | Thirteen<br>Weeks<br>Ending<br>July 2, 2011 | Thirteen<br>Weeks<br>Ending<br>July 3, 2010 |
|---|---|---|
| Operating Revenues:   |   |   |
| Restaurants   | \$ 14,670                                   | \$ 14,111                                   |
| Package stores  | 3,117                                       | 2,963                                       |
| Other revenues  | 333   | 300   |
| Total operating revenues  | \$ 18,120                                   | \$ 17,374                                   |
| Operating Income Reconciled to Income Before Income<br>Taxes and Net Income Attributable to Noncontrolling<br>Interests |   |   |
| Restaurants   | \$ 857                                      | \$ 1,212                                    |
| Package stores  | 226   | 269   |
|   | 1,083                                       | 1,481                                       |
| Corporate expenses, net of other<br>Revenues  | (261 )                                      | (447 )                                      |
| Operating income  | 822   | 1,034                                       |
| Other income (expense)  | (129 )                                      | (98 )                                       |
| Operating Income Reconciled to Income Before Income<br>Taxes and Net Income Attributable to Noncontrolling<br>Interests | \$ 693                                      | \$ 936                                      |



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## Depreciation and Amortization:

|                                     |        |        |
|-------------------------------------|--------|--------|
| Restaurants                         | \$ 481 | \$ 469 |
| Package stores                      | 56     | 53     |
|                                     | 537    | 522    |
| Corporate                           | 89     | 82     |
| Total Depreciation and Amortization | \$ 626 | \$ 604 |

## Capital Expenditures:

|                            |        |        |
|----------------------------|--------|--------|
| Restaurants                | \$ 662 | \$ 338 |
| Package stores             | 82     | 77     |
|                            | 744    | 415    |
| Corporate                  | 152    | 87     |
| Total Capital Expenditures | \$ 896 | \$ 502 |

|                          | Thirty Nine<br>Weeks<br>Ending<br>July 2, 2011 | Thirty Nine<br>Weeks<br>Ending<br>July 3, 2010 |
|--------------------------|--|--|
| Operating Revenues:      |  |  |
| Restaurants              | \$ 43,732                                      | \$ 42,335                                      |
| Package stores           | 10,321   | 10,151   |
| Other revenues           | 1,019  | 990  |
| Total operating revenues | \$ 55,072                                      | \$ 53,476                                      |

## Operating Income Reconciled to Income Before Income

## Taxes and Net Income Attributable to Noncontrolling

## Interests

|   |          |          |
|---|----------|----------|
| Restaurants                               | \$ 3,222 | \$ 3,890 |
| Package stores                            | 978      | 925      |
|   | 4,200    | 4,815    |
| Corporate expenses, net of other          |          |          |
| Revenues                                  | (1,503 ) | (1,675 ) |
| Operating income                          | 2,697    | 3,140    |
| Other income (expense)                    | (122 )   | (286 )   |
| Income Before Income Taxes and Net Income |          |          |
| Attributable to Noncontrolling Interests  | \$ 2,575 | \$ 2,854 |

## Depreciation and Amortization:

|                                     |          |          |
|-------------------------------------|----------|----------|
| Restaurants                         | \$ 1,494 | \$ 1,421 |
| Package stores                      | 171      | 160      |
|                                     | 1,665    | 1,581    |
| Corporate                           | 272      | 248      |
| Total Depreciation and Amortization | \$ 1,937 | \$ 1,829 |

## Capital Expenditures:

|             |          |          |
|-------------|----------|----------|
| Restaurants | \$ 3,291 | \$ 1,955 |
|-------------|----------|----------|



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|                            |          |            |
|----------------------------|----------|------------|
| Package stores             | 537      | 487        |
|                            | 3,828    | 2,442      |
| Corporate                  | 365      | 118        |
| Total Capital Expenditures | \$4,193  | \$2,560    |
|                            | July 2,  | October 2, |
|                            | 2011     | 2010       |
| Identifiable Assets:       |          |            |
| Restaurants                | \$22,723 | \$22,043   |
| Package store              | 4,223    | 3,678      |
|                            | 26,946   | 25,721     |
| Corporate                  | 12,033   | 11,593     |
| Consolidated Totals        | \$38,979 | \$37,314   |

## ITEMMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. 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 Form 10-K for the Company’s fiscal year ended October 2, 2010 and in this Quarterly Report on Form 10-Q. The Company undertakes 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.

### OVERVIEW

At July 2, 2011, we (i) operated 24 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 one restaurant and four combination restaurants/package stores, (one restaurant of which we operate). 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, 2011 and as compared to July 3, 2010 and October 2, 2010. 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”.

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| Types of Units                     | July 2,<br>2011 | October 2,<br>2010 | July 3,<br>2010 |
|------------------------------------|-----------------|--------------------|-----------------|
| Company Owned:                     |                 |                    |                 |
| Combination package and restaurant | 4               | 4                  | 4               |
| Restaurant only                    | 4               | 4                  | 4               |
| Package store only                 | 5               | 5                  | 5               |
| Company Operated Restaurants Only: |                 |                    |                 |
| Limited Partnerships               | 9               | (2) 9              | 9               |
| Franchise                          | 1               | 1                  | 1               |
| Unrelated Third Party              | 1               | 1                  | 1               |
| Company Owned Club:                | 1               | 1                  | 1               |
| Total Company Owned/Operated Units | 25              | 25                 | 25              |
| Franchised Units                   | 5               | 5                  | 5 (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.

(2) As of July 31, 2011, we purchased the assets of a restaurant owned by a limited partnership and the restaurant became a Company owned unit.

**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 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.

**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 (½) 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 (½) of available cash to the limited partnership, with the other one half (½) of available cash distributed to the investors (including us and our affiliates). As of July 2, 2011, limited partnerships owning three (3) restaurants, (Surfside, Florida, Kendall, Florida and West Miami, Florida locations), have returned all cash invested and we receive an annual management fee equal to one-half (½) 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”.





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## RESULTS OF OPERATIONS

|                            | -----Thirteen Weeks<br>Ended----- |               |                 |               |
|----------------------------|-----------------------------------|---------------|-----------------|---------------|
|                            | July 2, 2011                      |               | July 3, 2010    |               |
|                            | Amount                            |               | Amount          |               |
|                            | (In                               | Percent       | (In             | Percent       |
|                            | thousands)                        |               | thousands)      |               |
| Restaurant food sales      | \$11,712                          | 65.85         | \$11,247        | 65.88         |
| Restaurant bar sales       | 2,958                             | 16.63         | 2,864           | 16.77         |
| Package store sales        | 3,117                             | 17.52         | 2,963           | 17.35         |
| <b>Total Sales</b>         | <b>\$17,787</b>                   | <b>100.00</b> | <b>\$17,074</b> | <b>100.00</b> |
| Franchise related revenues | 233                               |               | 220             |               |
| Owner's fee                | 39                                |               | 42              |               |
| Other operating income     | 61                                |               | 38              |               |
| <b>Total Revenue</b>       | <b>\$18,120</b>                   |               | <b>\$17,374</b> |               |

|                            | -----Thirty-Nine Weeks<br>Ended----- |               |                 |               |
|----------------------------|--------------------------------------|---------------|-----------------|---------------|
|                            | July 2, 2011                         |               | July 3, 2010    |               |
|                            | Amount                               |               | Amount          |               |
|                            | (In                                  | Percent       | (In             | Percent       |
|                            | thousands)                           |               | thousands)      |               |
| Restaurant food sales      | \$34,795                             | 64.37         | \$33,801        | 64.40         |
| Restaurant bar sales       | 8,937                                | 16.53         | 8,534           | 16.26         |
| Package store sales        | 10,321                               | 19.10         | 10,151          | 19.34         |
| <b>Total Sales</b>         | <b>\$54,053</b>                      | <b>100.00</b> | <b>\$52,486</b> | <b>100.00</b> |
| Franchise related revenues | 736                                  |               | 756             |               |
| Owner's fee                | 123                                  |               | 125             |               |
| Other operating income     | 160                                  |               | 109             |               |
| <b>Total Revenue</b>       | <b>\$55,072</b>                      |               | <b>\$53,476</b> |               |

Comparison of Thirteen Weeks Ended July 2, 2011 and July 3, 2010.

Revenues. Total revenue for the thirteen weeks ended July 2, 2011 increased \$746,000 or 4.29% to \$18,120,000 from \$17,374,000 for the thirteen weeks ended July 3, 2010.

Restaurant Food Sales. Restaurant revenue generated from the sale of food at restaurants (food sales) totaled \$11,712,000 for the thirteen weeks ended July 2, 2011 as compared to \$11,247,000 for the thirteen weeks ended July 3, 2010. Comparable weekly food sales (for restaurants open for all of the third quarter of our fiscal years 2011 and 2010, which consists of eight restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was \$901,000 and \$865,000 for the thirteen weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 4.16%. Comparable weekly food sales for Company owned restaurants (open for all of the third quarter of our fiscal

years 2011 and 2010), was \$375,000 and \$358,000 for the third quarter of our fiscal year 2011 and the third quarter of our fiscal year 2010, respectively, an increase of 4.75%. Comparable weekly food sales for affiliated limited partnership owned restaurants, (open for all of the third quarter of our fiscal years 2011 and 2010), was

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\$526,000 and \$507,000 for the third quarter of our fiscal year 2011 and the third quarter of our fiscal year 2010, respectively, an increase of 3.75%.

**Restaurant Bar Sales.** Restaurant revenue generated from the sale of alcoholic beverages at restaurants (bar sales) totaled \$2,958,000 for the thirteen weeks ended July 2, 2011 as compared to \$2,864,000 for the thirteen weeks ended July 3, 2010. Comparable weekly bar sales (for restaurants open for all of the third quarter of our fiscal years 2011 and 2010, which consists of eight restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was \$228,000 for the thirteen weeks ended July 2, 2011 and \$220,000 for the thirteen weeks ended July 3, 2010, an increase of 3.64%. Comparable weekly bar sales for Company owned restaurants, (open for all of the third quarter of our fiscal years 2011 and 2010), was \$93,000 and \$92,000 for the third quarter of our fiscal year 2011 and the third quarter of our fiscal year 2010, respectively, an increase of 1.09%. Comparable weekly bar sales for affiliated limited partnership owned restaurants, (open for all of the third quarter of our fiscal years 2011 and 2010), was \$135,000 and \$128,000 for the third quarter of our fiscal year 2011 and the third quarter of our fiscal year 2010, respectively, an increase of 5.47%.

**Package Store Sales.** Revenue generated from sales of liquor and related items at package liquor stores (package store sales) totaled \$3,117,000 for the thirteen weeks ended July 2, 2011 as compared to \$2,963,000 for the thirteen weeks ended July 3, 2010, an increase of \$154,000. 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 2011 and 2010), was \$240,000 for the thirteen weeks ended July 2, 2011 as compared to \$228,000 for the thirteen weeks ended July 3, 2010, an increase of 5.26%. Package store sales are expected to remain stable throughout the balance of our fiscal year 2011.

**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, 2011 increased \$958,000 or 5.86% to \$17,298,000 from \$16,340,000 for the thirteen weeks ended July 3, 2010. The increase was primarily due to a general increase in food costs, offset by a decrease in repairs and maintenance to our units and 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 2011 due primarily to an expected general increase in food costs, including an increase in the cost of ribs. Operating costs and expenses increased as a percentage of total sales to approximately 95.46% in the third quarter of our fiscal year 2011 from 94.05% in the third quarter of our fiscal year 2010.

**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, 2011 increased to \$9,589,000 from \$9,301,000 for the thirteen weeks ended July 3, 2010. 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, 2011 and 65.91% for the thirteen weeks ended July 3, 2010. We anticipate that our gross profit for restaurant food and bar sales will decrease during the balance of our fiscal year 2011 due to higher food costs, including our cost of ribs.

**Package Store Sales.** Gross profit for package store sales for the thirteen weeks ended July 2, 2011 decreased to \$1,024,000 from \$1,034,000 for the thirteen weeks ended July 3, 2010. Our gross profit margin, (calculated as gross profit reflected as a percentage of package store sales), for package store sales was 32.85% for the thirteen weeks ended July 2, 2011 and 34.90% for the thirteen weeks ended July 3, 2010. The decrease in our gross profit margin, (-2.05%), was primarily due to our inability



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to purchase “close out” and inventory reduction merchandise from wholesalers. We anticipate that the gross profit margin for package store sales will decrease throughout the balance of our fiscal year 2011 due to our inability to continue purchasing “close out” and inventory reduction merchandise from wholesalers.

**Payroll and Related Costs.** Payroll and related costs for the thirteen weeks ended July 2, 2011 increased \$383,000 or 7.50% to \$5,491,000 from \$5,108,000 for the thirteen weeks ended July 3, 2010 due primarily to increases in payroll taxes, including unemployment tax, and increases in employee and manager training costs associated with our expanded training programs. Payroll and related costs as a percentage of total sales was 30.30% in the third quarter of our fiscal year 2011 and 29.40% of total sales in the third quarter of our fiscal year 2010.

**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, 2011 increased \$15,000 or 1.41% to \$1,079,000 from \$1,064,000 for the thirteen weeks ended July 3, 2010. Our occupancy costs increased primarily due to rental increases in existing leases, offset by the elimination of rent paid for our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22), the real property and building of which we purchased during the fourth quarter of our fiscal year 2010, and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20), the real property and building of which we purchased during the first quarter of our fiscal year 2011. We anticipate that our occupancy costs will remain stable throughout the balance of our fiscal year 2011, primarily due to the elimination of rent paid for our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22) and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20).

**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, 2011 increased \$125,000 or 3.65% to \$3,554,000 from \$3,429,000 for the thirteen weeks ended July 3, 2010. Selling, general and administrative expenses decreased as a percentage of total sales in the third quarter of our fiscal year 2011 to approximately 19.61% as compared to 19.74% in the third quarter of our fiscal year 2010. We anticipate that our selling, general and administrative expenses will increase throughout the balance of our fiscal year 2011 across all categories.

**Depreciation and Amortization.** Depreciation and amortization expense for the thirteen weeks ended July 2, 2011 and July 3, 2010 was \$626,000 and \$604,000 respectively. As a percentage of revenue, depreciation and amortization expense was 3.45% of revenue in the thirteen weeks ended July 2, 2011 and 3.48% of revenue in the thirteen weeks ended July 3, 2010.

**Interest Expense, Net.** Interest expense, net, for the thirteen weeks ended July 2, 2011 increased \$40,000 to \$160,000 from \$120,000 for the thirteen weeks ended July 3, 2010. Interest expense increased during the thirteen weeks ended July 2, 2011 primarily due to the interest paid on the mortgages associated with the purchase of our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22), and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20), which mortgages did not exist during the thirteen weeks ended July 3, 2010.

**Net Income.** Net income for the thirteen weeks ended July 2, 2011 decreased \$81,000 or 19.01% to \$345,000 from \$426,000 for the thirteen weeks ended July 3, 2010. As a percentage of sales, net income for the third quarter of our fiscal year 2011 is 1.90%, as compared to 2.45% in the third quarter of our fiscal year 2010.

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Comparison of Thirty-Nine Weeks Ended July 2, 2011 and July 3, 2010.

Revenues. Total revenue for the thirty nine weeks ended July 2, 2011 increased \$1,596,000 or 2.98% to \$55,072,000 from \$53,476,000 for the thirty nine weeks ended July 3, 2010.

Restaurant Food Sales. Restaurant revenue generated from the sale of food at restaurants (food sales) totaled \$34,795,000 for the thirty nine weeks ended July 2, 2011 as compared to \$33,801,000 for the thirty nine weeks ended July 3, 2010. Comparable weekly food sales (for restaurants open for all of the thirty nine weeks of our fiscal years 2011 and 2010, which consists of seven restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was \$852,000 and \$823,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 3.52%. Comparable weekly food sales for Company owned restaurants (open for all of the thirty nine weeks of our fiscal years 2011 and 2010), was \$333,000 and \$318,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 4.72%. Comparable weekly food sales for affiliated limited partnership owned restaurants (for restaurants open for all of the thirty nine weeks of our fiscal years 2011 and 2010), was \$519,000 and \$505,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 2.77%.

Restaurant Bar Sales. Restaurant revenue generated from the sale of alcoholic beverages at restaurants (bar sales) totaled \$8,937,000 for the thirty nine weeks ended July 2, 2011 as compared to \$8,534,000 for the thirty nine weeks ended July 3, 2010. Comparable weekly bar sales (for restaurants open for all of the thirty nine weeks of our fiscal years 2011 and 2010, which consists of seven restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was \$214,000 for the thirty nine weeks ended July 2, 2011 and \$205,000 for the thirty nine weeks ended July 3, 2010, an increase of 4.39%. Comparable weekly bar sales for Company owned restaurants (open for all of the thirty nine weeks of our fiscal years 2011 and 2010,) was \$80,000 and \$79,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 1.27%. Comparable weekly bar sales for affiliated limited partnership owned restaurants (open for all of the thirty nine weeks of our fiscal years 2011 and 2010) was \$134,000 and \$126,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 6.35%. Restaurant bar sales increased during the thirty nine weeks ended July 2, 2011 primarily due to our half price drink promotion from 9:00 p.m. to closing, which promotion was in effect during the entire thirty nine weeks ended July 2, 2011, but only instituted for part of the thirty nine weeks ended July 3, 2010.

Package Store Sales. Revenue generated from sales of liquor and related items at package stores (package store sales) totaled \$10,321,000 for the thirty nine weeks ended July 2, 2011 as compared to \$10,151,000 for the thirty nine weeks ended July 3, 2010, an increase of \$170,000. 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 2011 and 2010) was \$265,000 and \$260,000 for the thirty nine weeks ended July 2, 2011 and July 3, 2010, respectively, an increase of 1.92%. Package liquor store sales are expected to remain stable throughout the balance of our fiscal year 2011.

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, 2011 increased \$2,039,000 or 4.05% to \$52,375,000 from \$50,336,000 for the thirty nine weeks ended July 3, 2010. The increase was primarily due to a general increase in food costs, offset by a decrease in repairs and maintenance to our units and 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 2011 due primarily to an expected general increase in food costs,





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including an increase in the cost of ribs. Operating costs and expenses increased as a percentage of total sales to approximately 95.10% for the thirty nine weeks ended July 2, 2011 from 94.13% for the thirty nine weeks ended July 3, 2010.

**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, 2011 increased to \$28,758,000 from \$27,964,000 for the thirty nine weeks ended July 3, 2010. 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 65.76% for the thirty nine weeks ended July 2, 2011 and 66.06% for the thirty nine weeks ended July 3, 2010. We anticipate that our gross profit for restaurant food and bar sales will decrease during the balance of our fiscal year 2011 due to higher food costs, including our cost of ribs.

**Package Store Sales.** Gross profit for package store sales for the thirty nine weeks ended July 2, 2011 increased to \$3,500,000 from \$3,377,000 for the thirty nine weeks ended July 3, 2010. Our gross profit margin, (calculated as gross profit reflected as a percentage of package store sales), was 33.91% for the thirty nine weeks ended July 2, 2011 compared to 33.27% for the thirty nine weeks ended July 3, 2010. The increase in our gross profit margin, (0.64%), was primarily due to the purchase of "close out" and inventory reduction merchandise from wholesalers. We anticipate the gross profit margin for package store sales to decrease throughout the balance of our fiscal year 2011 due to our inability to continue purchasing "close out" and inventory reduction merchandise from wholesalers.

**Payroll and Related Costs.** Payroll and related costs for the thirty nine weeks ended July 2, 2011 increased \$912,000 or 5.85% to \$16,492,000 from \$15,580,000 for the thirty nine weeks ended July 3, 2010, due primarily to increases in payroll taxes, including unemployment tax. Payroll and related costs as a percentage of total sales was 29.95% for the thirty nine weeks ended July 2, 2011 and 29.13% of total sales for the thirty nine weeks ended July 3, 2010.

**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, 2011 increased \$44,000 or 1.40% to \$3,190,000 from \$3,146,000 for the thirty nine weeks ended July 3, 2010. Our occupancy costs increased primarily due to rental increases in existing leases, offset by the elimination of rent paid for our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22), the real property and building of which we purchased during the fourth quarter of our fiscal year 2010, and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20), the real property and building of which we purchased during the first quarter of our fiscal year 2011. We anticipate that our occupancy costs will remain stable throughout the balance of our fiscal year 2011, primarily due to the elimination of rent paid for our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22) and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20).

**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, 2011 increased \$430,000 or 4.11% to \$10,898,000 from \$10,468,000 for the thirty nine weeks ended July 3, 2010. Selling, general and administrative expenses increased as a percentage of total sales for the thirty nine weeks ended July 2, 2011 to 19.79% as compared to 19.58% for the thirty nine weeks ended July 3, 2010. We anticipate that our selling, general and administrative expenses will increase throughout the balance of our fiscal year 2011 across all categories.



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**Depreciation and Amortization.** Depreciation and amortization expense for the thirty nine weeks ended July 2, 2011 and July 3, 2010 was \$1,937,000 and \$1,829,000 respectively. As a percentage of revenue, depreciation and amortization expense was 3.52% of revenue in the thirty nine weeks ended July 2, 2011 and 3.42% of revenue in the thirty nine weeks ended July 3, 2010.

**Interest Expense, Net.** Interest expense, net, for the thirty nine weeks ended July 2, 2011 increased \$102,000 to \$457,000 from \$355,000 for the thirty nine weeks ended July 3, 2010. Interest expense increased during the thirty nine weeks ended July 2, 2011 primarily due to the interest paid on the mortgages associated with the purchase of our restaurant located at 2600 West Davie Boulevard, Fort Lauderdale, Florida (Store #22), and our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida (Store #20), which mortgages did not exist during the thirty nine weeks ended July 3, 2010.

**Net Income.** Net income for the thirty nine weeks ended July 2, 2011 increased \$46,000 or 3.32% to \$1,430,000 from \$1,384,000 for the thirty nine weeks ended July 3, 2010. As a percentage of sales, net income for the thirty nine weeks ended July 2, 2011 is 2.60%, as compared to 2.59% for the thirty nine weeks ended July 3, 2010. During the thirty nine weeks ended July 2, 2011, we recognized income of \$231,000, offset by income tax of \$69,000, from the sale of our interest, as guarantor, of a nine (9) year leasehold interest. Without giving effect to the above non-recurring item, our net income for the thirty nine weeks ended July 2, 2011 would have decreased \$116,000 or 8.38% to \$1,268,000.

## New Limited Partnership Restaurants

During the thirty nine weeks ended July 2, 2011 and the thirty nine weeks ended July 3, 2010, we did not have a new restaurant location in the development stage and did not recognize any pre-opening costs.

While we currently have no new restaurants under development, if we are to open new restaurants, 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. We believe that our current cash on hand, together with our expected cash generated from operations will be sufficient to fund our operations and capital expenditures for at least the next twelve months.

## Trends

During the next twelve months, we expect same store food sales to decline due primarily to increased competition. We expect package store sales to remain stable, although we expect the gross profit margin for package store sales to decrease due to our inability to purchase “close out” and inventory reduction merchandise from wholesalers. We expect higher food costs and higher overall expenses to adversely affect our net income. In December 2007, we raised menu prices to offset the higher food costs and overall expenses. During the first and fourth quarters of our fiscal year 2010, we raised certain of our alcoholic drink prices. We have avoided menu price increases as long as possible, but are currently evaluating menu price increases to offset the higher food costs and overall expenses. We will maintain our high quality of food and service, without reducing our food portions. We have limited our advertising, but plan to attract and retain our customers by offering discount coupons and promotional gift cards, but are monitoring the impact of such discounts on our gross profit.

Although we have no new restaurant in development, we continue to search for new locations to open restaurants and thereby expand our business, but we are now looking for locations that will not require an extensive and costly renovation. Any new locations will likely be opened using our limited partnership ownership model.



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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, 2011, we had cash of approximately \$4,770,000, a decrease of \$1,677,000 from our cash balance of \$6,447,000 as of October 2, 2010. The decrease in cash as of July 2, 2011 was primarily due to our expending approximately \$1,750,000 for the cash portion of the purchase price required to close on the purchase of the real property and building where our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida, (Store #20) operates, offset by \$850,000 we borrowed from a related third party at the end of the first quarter, which loan is secured by a mortgage on the real property and building. Management believes that the Company's current cash availability from its 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 of fiscal years 2011 and 2010.

|  | -----Thirty-Nine Weeks<br>Ended----- |              |
|--|--------------------------------------|--------------|
|  | July 2, 2011                         | July 3, 2010 |
|  | (in thousands)                       |              |
| Net cash provided by operating activities            | \$ 3,579                             | \$ 5,640     |
| Net cash used in investing activities                | (3,850 )                             | (1,524 )     |
| Net cash used in financing activities                | (1,406 )                             | (1,651 )     |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,677 )                             | 2,465        |
| Cash and Cash Equivalents, Beginning                 | 6,447                                | 4,580        |
| Cash and Cash Equivalents, Ending                    | \$ 4,770                             | \$ 7,045     |

We did not declare or pay a cash dividend on our capital stock in our fiscal year 2010. On December 22, 2010, our Board declared a cash dividend of 10 cents per share, (\$188,000), which was paid on January 18, 2011 to shareholders of record on January 7, 2011. 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. We acquired property and equipment of \$4,193,000, (including \$122,000 of which was financed and \$28,000 of deposits recorded in other assets as of October 2, 2010), during the thirty nine weeks ended July 2, 2011, and including \$1,218,000 for renovations to one (1) existing Company owned restaurant. During the thirty nine weeks ended July 3, 2010, we acquired property and equipment of \$2,560,000, (including \$850,000 of which was financed, \$99,000 of which was the non-cash purchase of



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the assets of the franchised restaurant and \$20,000 of deposits recorded in other assets as of October 3, 2009), and including \$690,000 for renovations to two (2) existing 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 2011 to be approximately \$1,300,000, of which \$1,218,000 has been spent through July 2, 2011.

Subsequent to the end of the third quarter of our fiscal year 2011, we purchased the operating assets of the limited partnership which owned and operated the “Flanigan’s Seafood Bar and Grill” restaurant located in the former “Howard Johnson’s Hotel” in Stuart, Florida. We paid \$300,000 for the operating assets, all cash at closing, plus we forgave all amounts owed to us by the limited partnership, (\$311,000 as of July 30, 2011), including additional amounts to be incurred in connection with the wind down of the limited partnership’s business. As of July 31, 2011, this restaurant became a Company owned unit.

## Long Term Debt

As of July 2, 2011, we had long term debt of \$9,144,000, as compared to \$7,354,000, (including our line of credit), as of July 3, 2010, and \$8,053,000 as of October 2, 2010.

## Purchase Commitments

In order to fix the cost and ensure adequate supply of baby back ribs for our restaurants, on November 30, 2010, we entered into a purchase agreement with a new rib supplier, whereby we agreed to purchase approximately \$3,100,000 of baby back ribs during calendar year 2011 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, 2011, July 3, 2010 and our fiscal year ended October 2, 2010.

| Item                | July 2,<br>2011 | July 3,<br>2010 | Oct. 2,<br>2010 |
|---------------------|-----------------|-----------------|-----------------|
|                     |                 | (in thousands)  |                 |
| Current Assets      | \$8,757         | \$11,074        | \$9,754         |
| Current Liabilities | 6,754           | 6,647           | 6,373           |
| Working Capital     | \$2,003         | \$4,427         | \$3,381         |

Our working capital as of July 2, 2011 decreased by 54.75% from the working capital for the fiscal quarter ending July 3, 2010 and decreased by 40.76% from the working capital for the fiscal year ending October 2, 2010. Our working capital decreased during our fiscal quarter ended July 2, 2011 from our working capital for our fiscal year ended October 2, 2010 due to our (i) use of approximately \$900,000 in connection with our acquisition of the real property and building where our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida, (Store #20) operates, (ii) use of approximately \$1,218,000 for renovations to the existing Company owned restaurant located at 45 South Federal Highway, Boca Raton, Florida and (iii) payment on January 18, 2011 of the dividend (\$188,000) declared by our Board of Directors on December 22, 2010.





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While there can be no assurance due to, among other things, unanticipated expenses or unanticipated decline in revenues, or both, we believe that positive cash flow from operations will adequately fund operations, debt reductions and planned capital expenditures throughout the balance of our fiscal year 2011.

### Off-Balance Sheet Arrangements

The Company does 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.

### 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, 2011 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 2, 2010, 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, 2011, we had two variable rate debt instruments outstanding that are impacted by changes in interest rates. As a means of managing our interest rate risk on these debt instruments, we entered into interest rate swap agreements with third party financial institutions to convert certain variable rate debt obligations to fixed rates. We are currently party to the following two (2) interest rate swap agreements:

(i) One interest rate swap agreement entered into in July 2010 relates to a secured term loan in the original principal amount of \$1,586,000, (the “Term Loan Swap”), which converts the LIBOR based variable rate interest to a fixed rate. The Term Loan Swap requires us to pay interest for a three year period at a fixed rate of 4.55% on an initial amortizing notional principal amount of \$1,586,000, while receiving interest for the same period at the British Bankers Association LIBOR (“LIBOR”), Daily Floating Rate, plus 3.25%, on the same amortizing notional principal amount. Under this method of accounting, at July 2, 2011, we determined the fair value of the Term Loan Swap to be a liability of approximately (\$10,000) based upon unadjusted quoted prices in active markets for similar assets or liabilities provided by our unrelated third party lender. The fair value of the Term Loan Swap at July 2, 2011 was not significant; and

(ii) The second interest rate swap agreement entered into in July 2010 relates to a first mortgage loan encumbering our corporate offices, (the “Mortgage Loan Swap”). The Mortgage Loan Swap requires us to pay interest for a seven 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



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2.25%, on the same amortizing notional principal amount. Under this method of accounting, at July 2, 2011, we determined the fair value of the Mortgage Loan Swap to be a liability of approximately (\$27,000) based upon unadjusted quoted prices in active markets for similar assets or liabilities provided by our unrelated third party lender. The fair value of the Mortgage Loan Swap, at July 2, 2011 was not significant.

At July 2, 2011, 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

Based on evaluations as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer, with the participation of our management team, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective.

### Limitations on the Effectiveness of Controls and Permitted Omission from Management's Assessment

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### 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 2, 2010 for a discussion of other legal proceedings resolved in prior years.

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

Purchase of Company Common Stock

During the thirteen weeks ended July 2, 2011, we did not purchase any shares of our common stock. During the thirteen weeks ended July 3, 2010, we purchased 18 shares of our common stock for an aggregate purchase price of \$131 in an off market transaction, which reflected an actual per share purchase price which was equal to the average per share market price on the date of purchase. All repurchases of our common stock were consummated in connection with a discretionary plan to repurchase our common stock approved by the Board of Directors in May, 2007.

ITEM 6. EXHIBITS

The following exhibits are filed with this Report:

| Exhibit     | Description  |
|-------------|--|
| <u>31.1</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>31.2</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>32.1</u> | 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. |
| <u>32.2</u> | 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. |

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, 2011

/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)