FLANIGANS ENTERPRISES INC
Form 10-Q
February 15, 2011

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

FORM 10-Q

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

For the quarterly period ended January 1, 2011

OR

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

For the transition period from to

Commission File Number 1-6836

FLANIGAN'S ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Florida<br>(State or other jurisdiction of incorporation or organization) | 59-0877638<br>(I.R.S. Employer Identification Number) |
| 5059 N.E. 18th Avenue, Fort Lauderdale, Florida<br>(Address of principal executive offices) | 33334<br>(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.

Yesý No

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

Yes No

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

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ | Non-accelerated filer ¨ | Smaller reporting company ý |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ý

On February 15, 2011, 1,861,115 shares of Common Stock, $0.10 par value per share, were outstanding.

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)

Index

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

| | ---------Thirteen Weeks Ended-------- | |
|---|---|---|
| | January 1, 2011 | January 2, 2010 |
| REVENUES: | | |
| Restaurant food sales | $ 10,914 | $ 10,604 |
| Restaurant bar sales | 2,846 | 2,609 |
| Package store sales | 3,699 | 3,593 |
| Franchise related revenues | 259 | 281 |
| Owner's fee | 42 | 53 |
| Other operating income | 28 | 24 |
| | 17,788 | 17,164 |
| | | |
| COSTS AND EXPENSES: | | |
| Cost of merchandise sold: | | |
| Restaurant and lounges | 4,726 | 4,524 |
| Package goods | 2,436 | 2,453 |
| Payroll and related costs | 5,270 | 4,919 |
| Occupancy costs | 1,031 | 1,061 |
| Selling, general and administrative expenses | 3,657 | 3,616 |
| | 17,120 | 16,573 |
| Income from Operations | 668 | 591 |
| | | |
| OTHER INCOME (EXPENSE): | | |
| Interest expense | (136) | (105) |
| Interest and other income | 40 | 17 |
| | (96) | (88) |
| | | |
| Income before Provision for Income Taxes | 572 | 503 |
| | | |
| Provision for Income Taxes | (153) | (111) |
| | | |
| Net income before income attributable to noncontrolling interests | 419 | 392 |
| | | |
| Less: Net income attributable to noncontrolling interests | (69) | (104) |
| | | |
| Net income attributable to stockholders | 350 | 288 |

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-------- | |
| --- | --- | --- |
| | January 1, 2011 | January 2, 2010 |
| Net Income Per Common Share: | | |
| Basic and Diluted | $ 0.19 | $ 0.15 |
| | | |
| Weighted Average Shares and Equivalent Shares Outstanding | | |
| Basic and Diluted | 1,861,699 | 1,862,534 |

See accompanying notes to unaudited condensed consolidated financial statements.

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JANUARY 1, 2011 (UNAUDITED) AND OCTOBER 2, 2010
(in thousands)

ASSETS

| | January 1, 2011 | October 2, 2010 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $5,344 | $ 6,447 |
| Prepaid income taxes | 131 | -- |
| Due from franchisees | 23 | 2 |
| Other receivables | 97 | 193 |
| Inventories | 2,163 | 1,985 |
| Prepaid expenses | 1,464 | 786 |
| Deferred tax assets | 341 | 341 |
| Total Current Assets | 9,563 | 9,754 |
| Property and Equipment, Net | 25,960 | 23,995 |
| Investment in Limited Partnership | 135 | 140 |
| OTHER ASSETS: | | |
| Liquor licenses, net | 470 | 470 |
| Deferred tax assets | 879 | 879 |
| Leasehold interests, net | 1,391 | 1,445 |
| Other | 1,377 | 631 |
| Total Other Assets | 4,117 | 3,425 |
| Total Assets | $39,775 | $ 37,314 |

.
See accompanying notes to unaudited condensed consolidated financial statements.

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FLANIGAN'S ENTERPRISES, INC, AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JANUARY 1, 2011 (UNAUDITED) AND OCTOBER 2, 2010
(in thousands)

(Continued)

LIABILITIES AND EQUITY

| | January 1, 2011 | October 2, 2010 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $5,652 | $ 4,607 |
| Income taxes payable | -- | 269 |
| Due to franchisees | 511 | 649 |
| Current portion of long term debt | 1,423 | 815 |
| Deferred revenues | 3 | 7 |
| Deferred rent | 21 | 26 |
| Dividend payable | 188 | -- |
| Total Current Liabilities | 7,798 | 6,373 |
| Long Term Debt, Net of Current Maturities | 8,362 | 7,238 |
| Deferred Rent, Net of Current Portion | 178 | 180 |
| Equity: | | |
| Flanigan's Enterprises, Inc. Stockholders' Equity | | |
| Common stock, $.10 par value, 5,000,000 shares authorized; 4,197,642 shares issued | 420 | 420 |
| Capital in excess of par value | 6,240 | 6,240 |
| Retained earnings | 15,618 | 15,456 |
| Treasury stock, at cost, 2,336,527 shares at January 1, 2011 and 2,335,727 shares at October 2, 2010 | (6,055) | (6,049) |
| Total Flanigan's Enterprises, Inc. stockholders' equity | 16,223 | 16,067 |
| Noncontrolling interest | 7,214 | 7,456 |
| Total equity | 23,437 | 23,523 |
| Total liabilities and equity | $39,775 | $ 37,314 |

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 THIRTEEN WEEKS ENDED JANUARY 1, 2011 AND JANUARY 2, 2010
(in thousands)

| | January 1, 2011 | January 2, 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 419 | $ 392 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 599 | 557 |
| Amortization of leasehold interests | 54 | 54 |
| Loss on abandonment of property and equipment | 10 | 5 |
| Deferred rent | (7) | (6) |
| Loss from unconsolidated limited partnership | -- | 6 |
| Recognition of deferred revenues | (4) | (3) |
| Changes in operating assets and liabilities: (increase) decrease in | | |
| Due from franchisees | (21) | (186) |
| Other receivables | 92 | (79) |
| Prepaid income taxes | (131) | 111 |
| Inventories | (178) | (285) |
| Prepaid expenses | 404 | 9 |
| Other assets | (610) | 55 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 1,045 | 1,728 |
| Income taxes payable | (269) | - |
| Due to franchisees | (138) | 33 |
| Net cash and cash equivalents provided by operating activities | 1,265 | 2,391 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Collection on notes and mortgages receivable | 4 | 5 |
| Purchase of property and equipment | (2,480) | (725) |
| Deposit on property and equipment | (172) | - |
| Proceeds from sale of fixed assets | 3 | - |
| Distributions from unconsolidated limited partnership | 5 | 3 |
| Purchase of limited partnership interests | - | (10) |
| Net cash and cash equivalents used in investing activities | (2,640) | (727) |

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 THIRTEEN WEEKS ENDED JANUARY 1, 2011 AND JANUARY 2, 2010
(in thousands)

(Continued)

| | January 1, 2011 | January 2, 2010 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of long term debt | (261) | (278) |
| Proceeds from long-term debt | 850 | - |
| Purchase of treasury stock | (6) | (6) |
| Distributions to limited partnerships' noncontrolling interests | (311) | (287) |
| Net cash and cash equivalents provided (used) in financing activities | 272 | (571) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (1,103) | 1,093 |
| Beginning of Period | 6,447 | 4,580 |
| End of Period | $ 5,344 | $ 5,673 |
| Supplemental Disclosure for Cash Flow Information: | | |
| Cash paid during period for: | | |
| Interest | 136 | 105 |
| Income taxes | 153 | -- |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | |
| Financing of insurance contracts | $ 1,081 | $ 346 |
| Purchase deposits transferred to property and equipment | $ 16 | $ 6 |
| Purchase of property in exchange for debt | $ - | $ 850 |
| Purchase of assets of franchised restaurant | $ - | $ 262 |
| Purchase of vehicle in exchange for debt | $ 61 | $ - |
| Dividend declared | $ 188 | $ - |

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

JANUARY 1, 2011

(1) BASIS OF PRESENTATION:

The accompanying condensed consolidated financial information for the periods ended January 1, 2011 and January 2, 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. Flanigan's Enterprises of N. Miami, Inc., a wholly owned subsidiary, was formed in the first quarter of our fiscal year 2011 for the purpose of investing in the real property and building where our combination restaurant and package liquor store located at 13205 Biscayne Boulevard, North Miami, Florida,(Store #20), operates. 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 condensed consolidated financial statements include estimates relating to performance based officers' bonuses. The estimates are reviewed periodically and the effects of any revisions are reflected in the financial statements in the period they are determined to be necessary. Although these estimates are based on management's knowledge of current events and actions it may take in the future, they may ultimately differ from actual results.

(2) EARNINGS PER SHARE:

We follow Financial Accounting Standards Board Accounting Standards Codification Section 260 - "Earnings per Share" (FASB ASC 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 January 1, 2011, 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) RECENTLY 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 modifies 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 involvement in a variable interest entity. These changes 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.

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Issued

There were no recently issued accounting pronouncements during the first quarter of our fiscal year 2011 that we believe will have a material impact on our consolidated financial statements.

(5) EXTENSION OF LEASE FOR REAL PROPERTY:

Surfside, Florida

During the first quarter of our fiscal year 2011, the limited partnership which owns the restaurant located at 9516 Harding Avenue, Surfside, Florida, (Store #60), extended its lease for a period of ten years. The renewal terms are substantially the same as the existing lease, except that the annual rent will be subject to an increase effective January 1, 2011 and will thereafter be subject to fixed annual increases.

(6) INVESTMENT IN REAL PROPERTY:

North Miami, Florida

During the first quarter of our fiscal year 2011, our wholly owned subsidiary, (Flanigan's Enterprises of N. Miami, Inc., a Florida corporation), closed 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. We paid $1,750,000 for this property and subsequently borrowed $850,000 from a related third party, pursuant to a first mortgage, which we guaranteed. The mortgage note bears interest at the rate of ten (10%) percent per annum, is amortized over fifteen (15) years with equal monthly payments of principal and interest, each in the amount of $9,100, with a balloon payment of approximately $555,000 during January, 2019.

(7) DEBT

Financed Insurance Premiums

(i) For the policy year beginning December 30, 2010, our property insurance is a three (3) year policy with our insurance carrier. The three (3) year property insurance premium is in the amount of $894,000, of which $727,000 is financed through an unaffiliated third party lender. The finance agreement provides that we are obligated to repay the amounts financed, together with interest at the rate of 4.89% per annum, over 30 months, with monthly payments of principal and interest, each in the amount of approximately $25,000. The finance agreement is secured by a security interest in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

(ii) For the policy year beginning December 30, 2010, our general liability insurance, excluding limited partnerships, is a one (1) year policy with our insurance carriers, including automobile and excess liability coverage. The one (1) year general liability insurance premiums, including automobile and excess liability coverage, total in the aggregate $244,000, of which $195,000 is financed through the same unaffiliated third party lender. The finance agreement provides that we are obligated to repay the amounts financed, together with interest at the rate of 2.99% per annum, over 9 months, with monthly payments of principal and interest, each in the amount of $22,000. The finance agreement is secured by a security interest in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

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(iii) For the policy year beginning December 30, 2010, our general liability insurance for our limited partnerships is a one (1) year policy with our insurance carriers, including excess liability coverage. The one (1) year general liability insurance premiums, including excess liability coverage, total, in the aggregate $198,000, of which $159,000 is financed through the same unaffiliated third party lender. The finance agreement provides that we are obligated to repay the amounts financed, together with interest at the rate of 2.99% per annum, over 9 months, with monthly payments of principal and interest, each in the amount of approximately $18,000. The finance agreement is secured by a security interest in all insurance policies, all unearned premium, return premium, dividend payments and loss payments thereof.

(8) 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.

(9) STOCK OPTION PLAN:

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 January 1, 2011, no options to acquire shares were outstanding. Under this plan, options to acquire an aggregate of 45,000 shares are available for grant.

No stock options were granted during the thirteen weeks ended January 1, 2011, nor were stock options granted during the thirteen weeks ended January 2, 2010.

No stock options were exercised during the thirteen weeks ended January 1, 2011, nor were stock options exercised during the thirteen weeks ended January 2, 2010.

There was no stock option activity during the thirteen weeks ended January 1, 2011, nor was there stock option activity during the thirteen weeks ended January 2, 2010.

(10) ACQUISITIONS:

Purchase of Company Common Stock

Pursuant to a discretionary plan approved by the Board of Directors at its meeting on May 17, 2007, during the thirteen weeks ended January 1, 2011, we purchased 800 shares of our common stock from the Joseph G. Flanigan Charitable Trust for an aggregate purchase price of $6,400. During the thirteen weeks ended January 2, 2010, we purchased 1,000 shares of our common stock from the Joseph G. Flanigan Charitable Trust for an aggregate purchase price of $6,000.

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(11) 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 $814,000. 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, "Guarantees". 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. We deny the allegations and are vigorously defending against the allegations.

(12) SUBSEQUENT EVENTS:

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

(13) 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 ended January 1, 2011 and January 2, 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.

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| | (in thousands) Thirteen Weeks Ending January 1, 2011 | Thirteen Weeks Ending January 2, 2010 |
|---|---|---|
| Operating Revenues: | | |
| Restaurants | $13,760 | $ 13,213 |
| Package stores | 3,699 | 3,593 |
| Other revenues | 329 | 358 |
| Total operating revenues | $17,788 | $ 17,164 |
| | | |
| Operating Income Reconciled to Income Before Income Taxes and Net Income Attributable to Noncontrolling Interests | | |
| Restaurants | $741 | $ 764 |
| Package stores | 383 | 257 |
| | 1,124 | 1,021 |
| Corporate expenses, net of other revenues | (456 ) | (430 ) |
| Operating income | 668 | 591 |
| Other income (expense) | (96 ) | (88 ) |
| Income Before Income Taxes and Net Income Attributable to Noncontrolling Interests | $572 | $ 503 |
| | | |
| Depreciation and Amortization: | | |
| Restaurants | $509 | $ 477 |
| Package stores | 57 | 52 |
| | 566 | 529 |
| Corporate | 87 | 82 |
| Total Depreciation and Amortization | $653 | $ 611 |
| | | |
| Capital Expenditures: | | |
| Restaurants | $2,026 | $ 1,384 |
| Package stores | 386 | 285 |
| | 2,412 | 1,669 |
| Corporate | 145 | 6 |
| Total Capital Expenditures | $2,557 | $ 1,675 |
| | January 1, 2011 | October 2, 2010 |
| Identifiable Assets: | | |
| Restaurants | $22,880 | $ 22,043 |
| Package store | 4,087 | 3,678 |
| | 26,967 | 25,721 |
| Corporate | 12,808 | 11,593 |
| Consolidated Totals | $39,775 | $ 37,314 |

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

Reported financial results may not be indicative of the financial results of future periods. All non-historical information contained in the following discussion constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as “anticipates, appears, expects, trends, intends, hopes, plans, believes, seeks, estimates, may, will,” and variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve a number of risks and uncertainties, including but not limited to customer demand and competitive conditions. Factors that could cause actual results to differ materially are included in, but not limited to, those identified in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Annual Report on 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 January 1, 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 January 1, 2011 and as compared to January 2, 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”.

| Types of Units | January 1, 2011 | October 2, 2010 | January 2, 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 | 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) |

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

Franchise Financial Arrangement: In exchange for our providing management and related services to our franchisees and granting them the right to use our service marks "Flanigan's Seafood Bar and Grill" and "Big Daddy's Liquors", our franchisees (four of which are franchised to members of the family of our Chairman of the Board, officers and/or directors), are required to (i) pay to us a royalty equal to 1% of gross package 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 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 cash available to the limited partnership, with the other one half (½) of available cash distributed to the investors (including us and our affiliates). As of January 1, 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".

RESULTS OF OPERATIONS

| | -----------------------Thirteen Weeks Ended----------------------- | | | |
|---|---|---|---|---|
| | January 1, 2011 | | January 2, 2010 | |
| | Amount (In thousands) | Percent | Amount (In thousands) | Percent |
| Restaurant food sales | $ 10,914 | 62.51 | $ 10,604 | 63.10 |
| Restaurant bar sales | 2,846 | 16.30 | 2,609 | 15.52 |
| Package store sales | 3,699 | 21.19 | 3,593 | 21.38 |
| Total Sales | $ 17,459 | 100.00 | $ 16,806 | 100.00 |
| Franchise related revenues | 259 | | 281 | |
| Owner's fee | 42 | | 53 | |
| Other operating income | 28 | | 24 | |
| Total Revenue | $ 17,788 | | $ 17,164 | |

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Comparison of Thirteen Weeks Ended January 1, 2011 and January 2, 2010.

Revenues. Total revenue for the thirteen weeks ended January 1, 2011 increased $624,000 or 3.64% to $17,788,000 from $17,164,000 for the thirteen weeks ended January 2, 2010.

Restaurant Food Sales. Restaurant revenue generated from the sale of food at restaurants totaled $10,914,000 for the thirteen weeks ended January 1, 2011 as compared to $10,604,000 for the thirteen weeks ended January 2, 2010. Comparable weekly restaurant food sales (for restaurants open for all of the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, which consists of seven restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was $803,000 and $779,000 for the thirteen weeks ended January 1, 2011 and January 2, 2010, respectively, an increase of 3.08%. Comparable weekly restaurant food sales for Company owned restaurants only was $307,000 and $295,000 for the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, respectively, an increase of 4.07%. Comparable weekly restaurant food sales for affiliated limited partnership owned restaurants only was $496,000 and $483,000 for the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, respectively, an increase of 2.69%.

Restaurant Bar Sales. Restaurant revenue generated from the sale of alcoholic beverages at restaurants (bar sales) totaled $2,846,000 for the thirteen weeks ended January 1, 2011 as compared to $2,609,000 for the thirteen weeks ended January 2, 2010. Comparable weekly restaurant bar sales (for restaurants open for all of the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, which consists of seven restaurants owned by us and nine restaurants owned by affiliated limited partnerships) was $206,000 for the thirteen weeks ended January 1, 2011 and $189,000 for the thirteen weeks ended January 2, 2010, an increase of 8.99%. Comparable weekly restaurant bar sales for Company owned restaurants only was $76,000 and $73,000 for the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, respectively, an increase of 4.11%. Comparable weekly restaurant bar sales for affiliated limited partnership owned restaurants only was $129,000 and $117,000 for the first quarter of our fiscal year 2011 and the first quarter of our fiscal year 2010, respectively, an increase of 10.26%. Restaurant bar sales increased during the first quarter of our fiscal year 2011 primarily due to an increase in same store restaurant bar sales resulting from our half price drink promotion from 9:00 p.m. to closing, which promotion was in effect during the entire first quarter of our fiscal year 2011, but only instituted for part of the first quarter of our fiscal year 2010.

Package Store Sales. Revenue generated from sales of liquor and related items at package liquor stores totaled $3,699,000 for the thirteen weeks ended January 1, 2011 as compared to $3,593,000 for the thirteen weeks ended January 2, 2010, an increase of $106,000. The weekly average of same store package liquor store sales, which includes all nine (9) Company owned package liquor stores, was $285,000 for the thirteen weeks ended January 1, 2011 as compared to $276,000 for the thirteen weeks ended January 2, 2010, an increase of 3.26%. 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 thirteen weeks ended January 1, 2011 increased $547,000 or 3.30% to $17,120,000 from $16,573,000 for the thirteen weeks ended January 2, 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 decreased as a percentage of total sales to approximately 96.24% in the first quarter of our fiscal year 2011 from 96.56% in the first quarter of our fiscal year 2010.

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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 thirteen weeks ended January 1, 2011 increased to $9,034,000 from $8,689,000 for the thirteen weeks ended January 2, 2010. Our gross profit margin for restaurant food and bar sales (calculated as gross profit reflected as a percentage of restaurant food and bar sales), was 65.65% for the thirteen weeks ended January 1, 2011 and 65.76% for the thirteen weeks ended January 2, 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 January 1, 2011 increased to $1,263,000 from $1,140,000 for the thirteen weeks ended January 2, 2010. Our gross profit margin, (calculated as gross profit reflected as a percentage of package liquor store sales), for package liquor store sales was 34.14% for the thirteen weeks ended January 1, 2011 and 31.73% for the thirteen weeks ended January 2, 2010. The increase in our gross profit margin, (2.41%), 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 remain constant throughout the balance of our fiscal year 2011 as we expect to continue purchasing “close out” and inventory reduction merchandise from wholesalers.

Payroll and Related Costs. Payroll and related costs for the thirteen weeks ended January 1, 2011 increased $351,000 or 7.14% to $5,270,000 from $4,919,000 for the thirteen weeks ended January 2, 2010. We anticipate that our payroll and related costs will remain constant throughout the balance of our fiscal year 2011. Payroll and related costs as a percentage of total sales was 29.63% in the first quarter of our fiscal year 2011 and 28.66% of total sales in the first 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 January 1, 2011 decreased $30,000 or 2.83% to $1,031,000 from $1,061,000 for the thirteen weeks ended January 2, 2010. Our occupancy costs decreased primarily due to 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 decrease 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 January 1, 2011 increased $41,000 or 1.13% to $3,657,000 from $3,616,000 for the thirteen weeks ended January 2, 2010. Selling, general and administrative expenses decreased as a percentage of total sales in the first quarter of our fiscal year 2011 to approximately 20.56% as compared to 21.07% in the first 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. Depreciation for the thirteen weeks ended January 1, 2011 increased $42,000 or 7.54% to $599,000 from $557,000 for the thirteen weeks ended January 2, 2010. As a percentage of total revenue, depreciation expense was 3.37% of revenue for the thirteen weeks ended January 1, 2011 and 3.25% of revenue in the thirteen weeks ended January 2, 2010.

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Interest Expense, Net. Interest expense, net, for the thirteen weeks ended January 1, 2011 increased $31,000 to $136,000 from $105,000 for the thirteen weeks ended January 2, 2010. Interest expense increased during the thirteen weeks ended January 1, 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 January 2, 2010.

Net Income. Net income for the thirteen weeks ended January 1, 2011 increased $62,000 or 21.53% to $350,000 from $288,000 for the thirteen weeks ended January 2, 2010. As a percentage of sales, net income for the first quarter of our fiscal year 2011 is 1.97%, as compared to 1.68% in the first quarter of our fiscal year 2010.

New Limited Partnership Restaurants

During the first quarter of our fiscal years 2011 and 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. We expect higher food costs and higher overall expenses, which will 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 plan to limit menu price increases as long as possible while maintaining our high quality of food and service and 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. We may be required to raise menu prices wherever competitively possible.

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.

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 January 1, 2011, we had cash of approximately $5,344,000, a decrease of $1,103,000 from our cash balance of $6,447,000 as of October 2, 2010. The decrease in cash as of January 1, 2011 was primarily due to our expending approximately $1,750,000 as the cash 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.

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Cash Flows

The following table is a summary of our cash flows for the thirteen weeks of fiscal years 2011 and 2010.

| | ---------Thirteen Weeks Ended-------- | |
|---|---|---|
| | January 1, 2011 | January 2, 2010 |
| | (in Thousands) | |
| Net cash provided by operating activities | $ 1,265 | $ 2,391 |
| Net cash used in investing activities | (2,640 ) | (727 ) |
| Net cash provided (used) in financing activities | 272 | (571 ) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (1,103 ) | 1,093 |
| Cash and Cash Equivalents, Beginning | 6,447 | 4,580 |
| Cash and Cash Equivalents, Ending | $ 5,344 | $ 5,673 |

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 payable 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 secondarily to fund capitalized property improvements for our existing restaurants. We acquired property and equipment of $2,557,000, (including $61,000 of which was financed and $16,000 of deposits recorded in other assets as of October 2, 2010), during the thirteen weeks ended January 1, 2011, including $402,000 for renovations to one (1) existing Company owned restaurant. During the thirteen weeks ended January 2, 2010, we acquired property and equipment of $1,675,000, (including $850,000 of which was financed, $99,000 of which was the non-cash purchase of the assets of the franchised restaurant and $6,000 of deposits recorded in other assets as of October 3, 2009), including $241,000 to complete the 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 $402,000 has been spent through January 1, 2011.

Long Term Debt

As of January 1, 2011, we had long term debt of $9,785,000, as compared to $7,718,000, (including our line of credit), as of January 2, 2010, and $8,053,000 as of October 2, 2010.

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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 January 1, 2011, January 2, 2010 and our fiscal year ended October 2, 2010.

| Item | Jan. 1, 2011 | Jan. 2, 2010 | Oct. 2, 2010 |
|---|---|---|---|
| | | (in Thousands) | |
| Current Assets | $9,563 | $ 10,153 | $ 9,754 |
| Current Liabilities | 7,798 | | |