

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

FLANIGANS ENTERPRISES INC
Form 10-K
December 29, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10K

(X) ANNUAL REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the fiscal year ended September 30, 2006

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 I-6836

Flanigan's Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Florida

59-0877638

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

5059 N.E. 18th Avenue, Fort Lauderdale, FL

33334

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code, (954) 377-1961

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.10 Par Value

American Stock Exchange

Title of each class

Name of each exchange
on which registered

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [X]

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

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.) Yes [] No [X]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$9,279,000 as of April 1, 2006, the last business day of the registrant's most recently completed second fiscal quarter, at a price of \$9.97 per share.

There were 1,884,365 shares of the Registrant's Common Stock \$0.10 par value, outstanding as of December 29, 2006

DOCUMENTS INCORPORATED BY REFERENCE

Information contained in the Registrant's 2007 definitive proxy material has been incorporated by reference in Items 10, 11, 12 and 13 of Part III of this Annual Report on Form 10-K.

Exhibit Index Begins on Page 47

PART I

Item 1. Business

When used in this report, the words "anticipate", "believe", "estimate", "will", "intend" and "expect" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, but are not limited to, those relating to the general expansion of the Company's business. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved.

General

Flanigan's Enterprises, Inc., (the "Company") owns and/or operates restaurants with lounges, package liquor stores and an entertainment oriented club (collectively the "units"). At September 30, 2006, the Company operated 21 units, and had equity interests in seven additional units which have been

2

franchised by the Company. The table below summarizes the type and number of units being operated during each of the last three fiscal years.

FISCAL FISCAL FISCAL

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

	YEAR 2006	YEAR 2005	YEAR 2004	NOTE NUMBER
TYPES OF UNITS				

Company Owned:				

Combination package and restaurant	4	4	4	
Restaurant only	2	2	2	
Package store only	5	5	5	
Company Managed				

Restaurants Only:				

Limited partnerships	7	6	5	(1) (2) (3) (4)
Franchise	1	1	1	
Unrelated Third Party	1	--	--	(5)
Company Owned Club:	1	1	1	

TOTAL - Company Owned/Operated Units:	21	19	18	
FRANCHISED - units	7	7	7	(6)
	--	--	--	

Notes:

(1) During the third quarter of fiscal year 2003, the Company, as general partner of the limited partnership, entered into a Sale of Business Agreement for the purchase of an existing business in Pinecrest, Florida, which transaction closed during the first quarter of fiscal year 2004. During the third quarter of fiscal year 2006, the limited partnership raised funds through a private offering to renovate the business premises for operation as a "Flanigan's Seafood Bar and Grill" restaurant. The Company acts as general partner and owns a thirty nine percent limited partnership interest. The restaurant opened for business on August 14, 2006.

(2) During the fourth quarter of fiscal year 2004, a limited partnership was formed with the Company as general partner, which limited partnership entered into a lease agreement to own and operate a restaurant in Wellington, Florida under the "Flanigan's Seafood Bar and Grill" service mark. During the first quarter of fiscal year 2005, the limited partnership raised funds through a private offering to renovate the business premises for operation as a "Flanigan's Seafood Bar and Grill" restaurant. The Company acts as general partner and owns a twenty six percent limited partnership interest. The restaurant opened for business on May 27, 2005.

(3) During the first quarter of fiscal year 2006, the Company, as agent for a limited partnership to be formed, entered into a contract to purchase an existing restaurant location in Davie, Florida to renovate and operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. Subsequent to the end of fiscal year 2006, a limited partnership was formed, with the Company as general partner, which limited

partnership expects to close on the purchase of the existing restaurant location at the start of the second quarter of fiscal year 2007. The restaurant is

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

expected to open for business during the fourth quarter of fiscal year 2007, provided the landlord's approval of building plans and all necessary zoning approvals, variances and/or special use permits are timely received. This restaurant is not included in the table of units.

(4) During the third quarter of fiscal year 2006, the Company, as agent for a limited partnership to be formed, entered into a contract to purchase an existing restaurant location in Pembroke Pines, Florida to renovate and operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. Subsequent to the end of fiscal year 2006, a limited partnership was formed, with the Company as general partner, which limited partnership closed on the purchase of the existing restaurant location. The restaurant is expected to open for business during the third quarter of fiscal year 2007. This restaurant is not included in the table of units.

(5) During the second quarter of fiscal year 2006, the Company assumed the management of an existing restaurant in Deerfield Beach, Florida under its current format, "The Whale's Rib", pursuant to a management agreement. This restaurant is included in the table of units.

(6) The Company manages the restaurant for one (1) franchisee with respect to one (1) of the seven (7) franchised units. The franchised restaurant is included in the table of units as a restaurant operated by the Company and the franchise is also included as a unit franchised by the Company and in which the Company has an interest.

With the exception of the combination package store and restaurant located at 4 N. Federal Highway, Hallandale, Florida, (Store #31), which is operated on property owned by the Company and a wholly owned subsidiary of the Company, all of the Company's package liquor stores, restaurants and clubs are operated on leased properties.

The Company was incorporated in Florida in 1959 and operated in South Florida as a chain of small cocktail lounges and package liquor stores. By 1970, the Company had established a chain of "Big Daddy's" lounges and package liquor stores between Vero Beach and Homestead, Florida. From 1970 to 1979, the Company expanded its package liquor store and lounge operations throughout Florida and opened clubs in five other "Sun Belt" states. In 1975, the Company discontinued most of its package store operations in Florida except in the South Florida areas of Dade, Broward, Palm Beach and Monroe Counties. In 1982 the Company expanded its club operations into the Philadelphia, Pennsylvania area as general partner of several limited partnerships organized by the Company. In March 1985 the Company began franchising its package liquor stores and lounges in the South Florida area. See Note 10 to the consolidated financial statements and the discussion of franchised units on page 6.

During fiscal year 1987, the Company began renovating its lounges to provide full restaurant food service, and subsequently renovated and added food service to most of its lounges. The restaurant concept, as the Company offers it, has been so well received by the public that food sales now represent approximately 81% of total restaurant sales.

4

The Company's package liquor stores emphasize high volume business by providing customers with a wide variety of brand name and private label merchandise at discount prices. The Company's restaurants provide efficient service of alcoholic beverages and full food service with abundant portions, reasonably priced, served in a relaxed, friendly and casual atmosphere.

The Company's principal sources of revenue are the sale of food and

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

alcoholic beverages.

The Company conducts its operations directly and through a number of limited partnerships and wholly owned subsidiaries. The limited partnerships and operating subsidiaries are as follows:

ENTITY -----	STATE OF ORGANIZATION -----	PERCENTAGE OWNED -----
Flanigan's Management Services, Inc.	Florida	100
Flanigan's Enterprises, Inc. of Georgia	Georgia	100
Flanigan's Enterprises, Inc. of Pa.	Pennsylvania	100
CIC Investors #13, Limited Partnership	Florida	39
CIC Investors #60, Limited Partnership	Florida	42
CIC Investors #65, Limited Partnership	Florida	26
CIC Investors #70, Limited Partnership	Florida	40
CIC Investors #75, Limited Partnership	Florida	12
CIC Investors #80, Limited Partnership	Florida	25
CIC Investors #95, Limited Partnership	Florida	28
Josar Investments, LLC	Florida	100

The income derived and expenses incurred by the Company relating to the aforementioned limited partnerships and subsidiaries are consolidated for accounting purposes with the income and expenses of the Company in the consolidated financial statements in this Form 10-K.

The Company's executive offices, which are owned by the Company, are located in a two story building at 5059 N.E. 18th Avenue, Fort Lauderdale, Florida 33334 and its telephone number at such address is (954) 377-1961.

Financial Information Concerning Industry Segments -----

The Company's business is carried out principally in two segments: the restaurant segment and the package liquor store segment.

5

Financial information broken into these two principal industry segments for the three fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004 is set forth in the consolidated financial statements which are attached hereto.

The Company's Package Liquor Stores and Restaurants -----

The Company's package liquor stores are operated under the "Big Daddy's Liquors" servicemark. The Company's package liquor stores emphasize high volume business by providing customers with a wide selection of brand name and private label liquors, beer and wines. The Company has a policy of meeting the published sales prices of its competitors. The Company provides extensive sales training to its package liquor store personnel. All package liquor stores are open six or seven days a week from 9:00-10:00 a.m. to 9:00-10:00 p.m., depending upon demand and local law. Approximately half of the Company's units have "night windows" with extended evening hours.

The Company's restaurants offer full food and alcoholic beverage

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

service with approximately 81% of their sales being food items. These restaurants are operated under the "Flanigan's Seafood Bar and Grill" servicemark. Although these restaurants provide a neighborhood atmosphere, they have the degree of standardization prevalent in casual dining restaurant chains, including menu. The interior decor is nautical with numerous fishing and boating pictures and decorations. Drink prices may vary between locations to meet local conditions. Food prices are standardized. The restaurants' hours of operation are from 11:00 a.m. to 1:00-5:00 a.m. The Company continues to develop strong customer recognition of its "Flanigan's Seafood Bar and Grill" servicemark through very competitive pricing and efficient and friendly service.

The Company's package liquor stores and restaurants were designed to permit minor modifications without significant capital expenditures. However, from time to time the Company is required to redesign and refurbish its units at significant cost. See Item 2, Properties and Item 7 for further discussion.

Franchised Package Liquor Stores and Restaurants

In March 1985, the Company's Board of Directors approved a plan to sell, on a franchise basis, up to 26 of the Company's package liquor stores and lounges in the South Florida area. The Company had limited response to its franchise offering and suspended its franchise plan at the end of fiscal year 1986. Many of the units that were originally offered as franchises have been sold outright and are no longer operated as Flanigan's or Big Daddy's stores. As of the end of fiscal year 2006, seven units were franchised, of which five units were franchised to members of the family of the Chairman of the Board and Officers and Directors of the Company.

During fiscal year 1995, the Company completed its new franchise agreement for a franchisee to operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark pursuant to a license from the Company.

6

The new franchise agreement provides the Company with the ability to maintain a high level of food quality and service at its franchised restaurants, which are essential to a successful operation. A franchisee is required to execute a new franchise agreement for the balance of the term of its lease for the business premises, extended by the franchisee's continued occupancy of the business premises thereafter, whether by lease or ownership. The new franchise agreement provides for a royalty to the Company in the amount of approximately 3% of gross sales plus a contribution to advertising in an amount between 1-1/2% to 3% of gross sales. All existing franchisees who operate restaurants under the "Flanigan's Seafood Bar and Grill" or other authorized servicemarks have executed new franchise agreements.

Franchise royalties are "earned" when sales are made by franchisees. This applies to both restaurants and package liquor stores. Franchise royalties are paid weekly, in arrears. The Company manages the books and records of all franchises, including collecting funds generated by the same. As a result, franchise royalties are paid to the Company by book entry on a weekly basis and the franchise royalties are never delinquent.

The units that continue to be franchised are doing well and continue to generate income for the Company.

Investment in Limited Partnerships

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

The Company has determined that all but one (1) limited partnership discussed below should be consolidated for accounting purposes by virtue of control of the limited partnerships by the Company. The remaining limited partnership in which the Company does not have control has been accounted for utilizing the equity method.

Beginning with the limited partnership which owns the restaurant in Surfside, Florida and for all limited partnerships formed subsequent thereto for the purpose of owning and operating a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark, a standard financial arrangement has been used in each limited partnership agreement. Under this financial arrangement, until the limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant, the limited partnership receives an aggregate sum equal to 25% of the initial investment of all limited partners first each year, with any additional net profit divided equally between the Company, as manager of the restaurant, and the limited partnership. Once the limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant, the net profit is divided equally between the Company, as manager of the restaurant, and the limited partnership. As of September 30, 2006, the limited partnerships which own the restaurants in Kendall, Florida, West Miami, Florida and Surfside, Florida have each received an aggregate sum equal to the initial investment of their respective limited partners from the net profit from the operation of their respective restaurants and the Company receives one-half (1/2) of the net profit as manager of each restaurant. The Company plans to continue forming limited partnerships to raise funds to own and operate restaurants under the "Flanigan's Seafood Bar and Grill" servicemark using the same financial arrangement.

7

Each limited partnership agreement, excluding only the limited partnership agreement for the franchised restaurant in Fort Lauderdale, Florida which is governed by a franchise agreement, gives the limited partnership the right to use the "Flanigan's Seafood Bar and Grill" servicemark for a fee equal to 3% of the gross sales from the operation of the restaurant, while the Company acts as general partner only. This 3% fee is "earned" when sales are made by the limited partnerships and is paid weekly, in arrears. The Company manages the books and records of all limited partnerships, including collecting funds generated by the same. As a result, the 3% fee is paid to the Company by book entry on a weekly basis and is never delinquent.

Pinecrest, Florida

During the fourth quarter of fiscal year 2006, the limited partnership completed the structural repairs and its interior build-out of the business premises in Pinecrest, Florida for the operation of a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. During the third quarter of fiscal year 2006, the limited partnership completed its private offering, raising the sum of \$3,300,000 to reimburse the Company for advances of \$1,506,000 made to the limited partnership in excess of its investment in the same, to complete the renovations to the business premises and to provide working capital. The Company continues to act as general partner and is also the owner of a thirty nine percent limited partnership interest, as are other related parties, including, but not limited to officers and directors of the Company and their families. This restaurant opened for business on August 14, 2006. As of the end of fiscal year 2006, this limited partnership had not yet received a return of the initial investment of all limited partners from the net profit from the operation of the restaurant.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Fort Lauderdale, Florida

A related third party acts as general partner of a limited partnership which owns and operates a franchised restaurant in Fort Lauderdale, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is a twenty five percent owner of the limited partnership as are other related parties, including, but not limited to officers and directors of the Company and their families. This joint venture is not consolidated in the accompanying consolidated financial statements of the Company.

Surfside, Florida

The Company acts as general partner of a limited partnership which owns and operates a restaurant in Surfside, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is also a forty two percent owner of the limited partnership as are other related parties, including, but not limited to officers and directors of the Company and their families. This restaurant opened for business in the second quarter of fiscal year 1998. As of the end of fiscal year 2006, this limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant.

8

Kendall, Florida

The Company acts as general partner of a limited partnership which owns and operates a restaurant in Kendall, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is also a forty percent owner of the limited partnership as are other related parties, including, but not limited to officers and directors of the Company and their families. This restaurant opened for business on April 9, 2000. This limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant.

West Miami, Florida

The Company acts as general partner of a limited partnership which owns and operates a restaurant in West Miami, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is also a twenty five percent owner of the limited partnership as are other related parties, including, but not limited to officers and directors of the Company and their families. This restaurant opened for business on October 11, 2001. As of the end of fiscal year 2006, this limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant.

Weston, Florida

The Company acts as general partner of a limited partnership, which owns and operates a restaurant in Weston, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is also the owner of twenty eight percent of the limited partnership, as are other related parties, including but not limited to officers and directors of the Company and their families. The restaurant opened for business, as a "Flanigan's Seafood Bar and Grill" restaurant on January 20, 2003. As of the end of fiscal year 2006, this limited partnership has received an aggregate sum equal to 55% of the initial investment of all limited partners from the net profit from the operation of the restaurant.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Stuart, Florida

The Company acts as general partner of a limited partnership, which owns and operates a restaurant in a Howard Johnson's Hotel in Stuart, Florida under the "Flanigan's Seafood Bar and Grill" service mark. The Company is also the owner of a twelve percent limited partnership interest, as are other related parties, including but not limited to officers and directors of the Company and their families. The renovated restaurant opened for business on January 11, 2004. During fiscal year 2006, this limited partnership only received three (3) quarterly distributions due to the limited cash flow generated by the restaurant. As of the end of fiscal year 2006, this limited partnership has received an aggregate sum equal to 22.5% of the initial investment of all limited partners from the net profit from the operation of the restaurant.

Wellington, Florida

The Company acts as general partner of a limited partnership, which owns and operates a restaurant in Wellington, Florida under the "Flanigan's

9

Seafood Bar and Grill" service mark. The Company is also the owner of a twenty six percent limited partnership interest, as are other related parties, including but not limited to officers and directors of the Company and their families. The restaurant opened for business on May 27, 2005. As of the end of fiscal year 2006, this limited partnership has received an aggregate sum equal to 30% of the initial investment of all limited partners from the net profit from the operation of the restaurant.

Davie, Florida

During the first quarter of fiscal year 2006, the Company, as agent for a Florida limited partnership to be formed, entered into a contract to purchase the furniture, fixtures, equipment and leasehold interest of an existing restaurant in Davie, Florida for a purchase price of \$650,000. The Company intends to renovate and operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. During the third quarter of fiscal year 2006, the Company received landlord approval of its preliminary building plans, including an outdoor seating area and submitted the same for site plan approval to the Town of Davie, Florida. During the fourth quarter of fiscal year 2006, the application for site plan approval was heard by the Planning and Zoning Board of the Town of Davie, Florida and the Company is modifying its building plans in accordance with the comments from the same. Subsequent to the end of fiscal year 2006, a limited partnership was formed with the Company as general partner, which limited partnership expects to enter into a new lease for the business premises and close on the purchase of the existing restaurant in Davie, Florida at the start of the second quarter of fiscal year 2007 at the purchase price of \$650,000. The initial estimates for renovations and pre-opening expenses is an additional \$1,700,000. The funds necessary for this limited partnership will be raised through a private offering. The Company will act as general partner and own up to thirty percent of the limited partnership. The restaurant is expected to open for business during the fourth quarter of fiscal year 2007.

Pembroke Pines, Florida

During the third quarter of fiscal year 2006, the Company, as agent for a Florida limited partnership to be formed, entered into a contract to purchase the liquor license and leasehold interest of an existing restaurant in Pembroke Pines, Florida for a purchase price of \$500,000. The Company intends to renovate

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

and operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. Subsequent to the end of fiscal year 2006, a limited partnership was formed with the Company as general partner, which limited partnership entered into a new lease for the business premises and closed on the purchase of the existing restaurant in Pembroke Pines, Florida. The purchase price was reduced to approximately \$305,000 due to the fact that site plan restrictions in the plat where the business premises is located would not permit outdoor seating and the liquor license owned by the seller was a restaurant liquor license, with no market value, rather than a quota liquor license, with a market value of \$145,000, as contracted. The Company modified its building plans to limit its renovations to the interior of the business premises, thereby avoiding the need for site plan approval. The initial estimate for renovations and pre-opening expenses is an additional \$1,600,000. The funds necessary for this limited partnership will be raised through a private offering. The Company acts as general partner and will own

10

up to thirty percent of the limited partnership. The restaurant is expected to open for business during the third quarter of fiscal year 2007.

Investment in Management Agreement

Deerfield Beach, Florida

During the first quarter of fiscal year 2006, the Company entered into a management agreement to operate an existing restaurant in Deerfield Beach, Florida under its current format, "The Whale's Rib", and to be entitled to one-half (1/2) of the net profit from the operation of the same. The term of the management agreement is for ten (10) years, with four (4) five (5) year renewal options. The Company paid \$500,000 for the management rights to the restaurant. The Company assumed the management of this restaurant on January 9, 2006. For the nine (9) months of fiscal year 2006, the Company recognized income under the management agreement of \$108,000.

Clubs

As of the end of fiscal year 2006, the Company owned one club in Atlanta, Georgia, which was operated by an unaffiliated third party, as discussed below.

Operation of Unit by Unaffiliated Third Party

The Company has a Management Agreement with Mardi Gras Management, Inc. for the operation of the Company's club in Atlanta, Georgia, under an adult entertainment format doing business as "Mardi Gras". During the third quarter of fiscal year 2004, Mardi Gras Management, Inc. entered into a new lease agreement with the landlord, which new lease agreement commenced May 1, 2006 for a period of ten (10) years, with one (1) ten (10) year renewal option. The Company did not execute or guaranty the new lease and has no liability on the same. Since Mardi Gras Management, Inc. still operates the club under the Management Agreement, the Company continues to receive an owner's fee of \$150,000 per year, paid monthly, versus ten (10%) percent of gross sales from the club, whichever is greater, subject to adjustment annually when rental increases under the new

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

lease take effect. The Company agreed that one-half (1/2) of the rental increases will be credited against the owner's fee each year, provided the owner's fee is never less than \$150,000 per year.

Operations and Management -----

The Company emphasizes systematic operations and control of all units. Each unit has its own manager who is responsible for monitoring inventory levels, supervising sales personnel, food preparation and service in restaurants and generally assuring that the unit is managed in accordance with Company guidelines and procedures. The Company has in effect an

11

incentive cash bonus program for its managers and salespersons based upon various performance criteria. The Company's operations are supervised by area supervisors. Each area supervisor supervises the operations of the units within his or her territory and visits those units to provide on-site management and support. There are five area supervisors responsible for package store, restaurant and club operations in specific geographic districts.

All of the Company's managers and salespersons receive extensive training in sales techniques. The Company arranges for independent third parties, or "shoppers", to inspect each unit in order to evaluate the unit's operations, including the handling of cash transactions.

Purchasing and Inventory -----

The package liquor business requires a constant substantial capital investment in inventory in the units. The Company's inventory consists primarily of liquor and wine products and as such, does not become excessive or obsolete that would require identifying and recording of the same. Liquor inventory purchased can normally be returned only if defective or broken.

All Company purchases of liquor inventory are made through its purchasing department from the Company's corporate headquarters. The major portion of inventory is purchased under individual purchase orders with licensed wholesalers and distributors who deliver the merchandise within one or two days of the placing of an order. Frequently there is only one wholesaler in the immediate marketing area with an exclusive distributorship of certain liquor product lines. Substantially all of the Company's liquor inventory is shipped by the wholesalers or distributors directly to the Company's units. The Company significantly increases its inventory prior to Christmas, New Year's Eve and other holidays. Pursuant to Florida law, the Company pays for its liquor purchases within ten days of delivery.

During fiscal year 2006, the Board of Directors approved the purchase of a new point of sale computer system for all Company package liquor stores, including the corporate office, at an estimated cost of \$180,000. The approval is subject to management testing and approving the system, prior to the installation of the same, which testing should take place during the second quarter of fiscal year 2007.

All negotiations with food suppliers are handled by the Company's purchasing department at the Company's corporate headquarters. This ensures that the best quality and prices will be available to each unit. Orders for food products are prepared by each unit's kitchen manager and reviewed by the unit's

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

general manager before being placed with the approved vendor. Merchandise is delivered by the supplier directly to each unit. Orders are placed several times a week to ensure product freshness. Food inventory is primarily paid for monthly.

12

Government Regulation

The Company is subject to various federal, state and local laws affecting its business. In particular, the units operated by the Company are subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire department agencies in the state or municipality where located.

Alcoholic beverage control regulations require each of the Company's units to apply to a state authority and, in certain locations, county and municipal authorities, for a license or permit to sell alcoholic beverages on and/or off premises.

In the State of Florida, which represents all but one of the total liquor licenses held by the Company, most of the Company's liquor licenses are issued on a "quota license" basis. Quota licenses are issued on the basis of a population count established from time to time under the latest applicable census. Because the total number of liquor licenses available under a quota license system is limited and restrictions placed upon their transfer, the licenses have purchase and resale value based upon supply and demand in the particular areas in which they are issued. The quota licenses held by the Company allow the sale of liquor for on and off premises consumption. In Florida, the other liquor licenses held by the Company or limited partnerships of which the Company is the general partner are restaurant liquor licenses, which do not have quota restrictions and no purchase or resale value. A restaurant liquor license is issued to every applicant who meets all of the state and local licensing requirements, including, but not limited to zoning and minimum restaurant size, seating and menu. The restaurant liquor licenses held by the Company allow the sale of liquor for on premises consumption only.

In the State of Georgia, the other state in which the Company operates, licensed establishments also do not have quota restrictions for on-premises consumption and such licenses are issued to any applicant who meets all of the state and local licensing requirements based upon extensive license application filings and investigations of the applicant.

All licenses must be renewed annually and may be revoked or suspended for cause at any time. Suspension or revocation may result from violation by the licensee or its employees of any federal, state or local law regulation pertaining to alcoholic beverage control. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of the Company's units, including, minimum age of patrons and employees, hours of operations, advertising, wholesale purchasing, inventory control, handling, storage and dispensing of alcoholic beverages, internal control and accounting and collection of state alcoholic beverage taxes.

As the sale of alcoholic beverages constitutes a large share of the Company's revenue, the failure to receive or retain, or a delay in obtaining a liquor license in a particular location could adversely affect the Company's operations in that location and could impair the Company's ability to obtain licenses elsewhere.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

During fiscal years 2004, 2005 and 2006 and through the present time, no significant pending matters have been initiated by the Department of Alcohol, Beverages and Tobacco concerning any of the Company's licenses which

13

might be expected to result in a revocation of a liquor license or other significant actions against the Company.

The Company is not aware of any statute, ordinance, rule or regulation under present consideration which would significantly limit or restrict its business as now conducted. However, in view of the number of jurisdictions in which the Company does business, and the highly regulated nature of the liquor business, there can be no assurance that additional limitations may not be imposed in the future, even though none are presently anticipated.

Federal and state environmental regulations have not had a material effect on the Company's operation.

General Liability Insurance

The Company has general liability insurance which incorporates a semi-self-insured plan under which the Company assumes the full risk of the first \$50,000 of exposure per occurrence, while the limited partnerships assume the full risk of the first \$10,000 of exposure per occurrence. The Company's insurance carrier is responsible for \$1,000,000 coverage per occurrence above the Company's self-insured deductible, up to a maximum aggregate of \$2,000,000 per year. During fiscal year 2004, fiscal year 2005, and again in fiscal year 2006 the Company was able to purchase excess liability insurance at a reasonable premium, whereby the Company's excess insurance carrier is responsible for \$6,000,000 coverage above the Company's primary general liability insurance coverage. With the exception of one (1) limited partnership which has higher general liability insurance coverage to comply with the terms of its lease for the business premises, the Company is un-insured against liability claims in excess of \$7,000,000 per occurrence and in the aggregate.

The Company's general policy is to settle only those legitimate and reasonable claims asserted and to aggressively defend and go to trial, if necessary, on frivolous and unreasonable claims. The Company has established a select group of defense attorneys which it uses in conjunction with this program. Under the Company's current liability insurance policy, any expense incurred by the Company in defending a claim, including adjusters and attorney's fees, are a part of the \$50,000 retention.

An accrual for the Company's estimated liability claims is included in the consolidated balance sheets in the caption "Accounts payable and accrued expenses". A significant unfavorable judgment or settlement against the Company in excess of its liability insurance coverage could have a materially adverse effect on the Company.

Property Insurance; Windstorm Insurance; Deductibles

For the policy year commencing December 30, 2006, the Company's property insurance provides for full insurance coverage for property losses, other than those caused by windstorm, such as a hurricane. The losses caused by hurricanes during the 2004 and 2005 hurricane seasons in South Florida

have made windstorm insurance coverage difficult to get and where available expensive to the point that full windstorm coverage for all locations is economically prohibitive. For those locations east of I-95, windstorm insurance coverage was only available through the State of Florida sponsored insurance fund and then limited to \$1,000,000 per building, including personal property, but without business interruption insurance. The State of Florida sponsored insurance fund has deductibles of 3% per location, per occurrence. Windstorm coverage for locations west of I-95 was procured through a private insurance carrier, including business interruption insurance, which provides coverage of \$10,000,000 per occurrence and in the aggregate, with "named storm deductibles" of 5% per location per occurrence, with a minimum deductible of \$100,000 per occurrence, and "other windstorm deductibles" of \$100,000 per occurrence. The windstorm policy provided by the private insurance carrier contains a limitation on recovery for roof replacement, with any roofs dating prior to 2001 being covered for their actual replacement value, in lieu of their replacement cost. The Company has determined that only two roofs at its locations west of I-95 for which it and/or its limited partnerships are responsible, pre-date 2001 so the exposure due to the roof replacement limitation is not significant. The private insurance policy also provides business interruption insurance for locations east of I-95, with a deductible of 5% per location, per occurrence, for business interruption insurance, as well as windstorm insurance in excess of the primary coverage provided through the State of Florida sponsored insurance fund. Management believes that the windstorm insurance coverage effective December 30, 2006 will provide adequate insurance coverage for all locations in the event of a hurricane, but in the event that more than four (4) locations are destroyed by a hurricane, thereby requiring total reconstruction, the windstorm insurance coverage may be inadequate and the Company and/or limited partnership may have to bear the cost of any uninsured expenses, which may have a material adverse effect upon the financial condition and/or results of operations of the Company. The Company intends to build its cash balances during hurricane season, (June 1 - November 30 each year), to provide liquidity for the Company if it encounters losses as a result of a hurricane or other casualty loss, as well as to maintain a line of credit as additional protection against the same. The Company's insurance expense for the policy year commencing December 30, 2006, including insurance coverage for its consolidated limited partnerships, is expected to increase by approximately \$300,000 due primarily to increases in windstorm insurance coverage.

For the policy year which commenced December 30, 2005, which included windstorm insurance coverage and was the third and final year of the Company's three (3) year property insurance policy with its insurance carrier, the property insurance had a deductible of \$25,000 - \$50,000 per location, per occurrence. In the event a casualty, such as a hurricane, had impacted every location whereby property damage and business interruption claims reached or exceeded every deductible, then the Company and its limited partnerships would have faced a maximum deductible of \$825,000. During the policy year commencing December 30, 2005, neither the Company, nor any of its limited partnerships, made a claim against its property insurance.

For the policy year which commenced December 30, 2004, which included windstorm insurance coverage and was the second year of the Company's three (3) year property insurance policy with its insurance carrier, the property insurance had a deductible of \$50,000 per occurrence, with no deductible per

location. In the event a casualty, such as Hurricane Wilma, the Company and its limited partnerships faced a maximum deductible of \$50,000 per occurrence.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

During the policy year commencing December 30, 2004, the Company and its limited partnerships made claims against its insurance carrier for damages and/or business interruption caused by Hurricane Wilma.

Hurricane Wilma; Windstorm Claims -----

During fiscal year 2006, the Company submitted claims totaling \$1,092,300 for damages and business interruption caused when Hurricane Wilma impacted South Florida on October 24, 2005. Subsequent to the end of fiscal year 2006, the Company settled its claims against its insurance carrier for \$929,000, (\$979,000 less the \$50,000 deductible). During fiscal year 2006, the Company received advances in the aggregate amount of \$700,000, (\$750,000 less the \$50,000 deductible), from its insurance carrier and subsequent to the end of fiscal year 2006 received a final payment of \$229,000.

Competition and the Company's Market -----

The liquor and hospitality industries are highly competitive and are often affected by changes in taste and entertainment trends among the public, by local, national and economic conditions affecting spending habits, and by population and traffic patterns. The Company believes that the principal means of competition among package liquor stores is price and that, in general, the principal means of competition among restaurants include the location, type and quality of facilities and the type, quality and price of beverage and food served.

The Company's package liquor stores compete directly or indirectly with local retailers and discount "superstores". Due to the competitive nature of the liquor industry in South Florida, the Company has had to adjust its pricing to stay competitive, including meeting all competitors' advertisements. Such practices will continue in the package liquor business. It is the opinion of the Company's management that the Company has a competitive position in its market because of widespread consumer recognition of the "Big Daddy's" and "Flanigan's" names.

As previously noted, at September 30, 2006 the Company owned and operated six restaurants, all of which had formerly been lounges and were renovated to provide full food service, operated one restaurant for a franchisee, operated one restaurant for an unrelated third party and operated an additional seven restaurants as general partner of limited partnerships. These restaurants compete directly with other restaurants serving liquor in the area. The Company's restaurants are competitive due to four factors: product quality, portion size, moderate pricing and a standardization throughout the Company owned and operated restaurants and the franchises.

The Company's business is subject to seasonal effects, including that liquor purchases tend to increase during the holiday seasons.

16

Trade Names -----

The Company operates principally under two servicemarks; "Big Daddy's Liquors" and "Flanigan's Seafood Bar and Grill", both of which are federally registered trademarks owned by the Company. Throughout Florida the Company's package liquor stores are operated under the "Big Daddy's Liquors" servicemark.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

The Company's rights to the use of the "Big Daddy's" servicemark are set forth under a consent decree of a Federal Court entered into by the Company in settlement of federal trademark litigation. The consent decree and the settlement agreement allow the Company to continue, and expand, its use of the "Big Daddy's" servicemark in connection with limited food and liquor sales in Florida. The consent decree further contained a restriction upon all future sales of distilled spirits in Florida under the "Big Daddy's" name by the other party who has a federally registered servicemark for "Big Daddy's" use in the restaurant business. The Federal Court retained jurisdiction to enforce the consent decree. The Company has acquired registered Federal trademarks on the principal register for its "Flanigan's" and "Flanigan's Seafood Bar and Grill" servicemarks.

The standard symbolic trademark associated with the Company and its facilities is the bearded face and head of "Big Daddy" which is predominantly displayed at all "Flanigan's" facilities and all "Big Daddy's" facilities throughout the country. The face comprising this trademark is that of the Company's founder, Joseph "Big Daddy" Flanigan, and is a federally registered trademark owned by the Company.

Employees

As of year end, the Company employed 927 employees, of which 690 were full-time and 237 were part-time. Of these, 39 were employed at the corporate offices and 5 were employed in maintenance. Of the remaining employees, 50 were employed in package liquor stores and 833 in restaurants.

None of the Company's employees are represented by collective bargaining organizations. The Company considers its labor relations to be favorable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name ----	Positions and Offices Currently Held -----	Age ---	Office or Position Held Since -----
James G. Flanigan	Chairman of the Board of Directors, Chief Executive Officer and President	42	2002
17			
August Bucci	Chief Operating Officer and Executive Vice President	62	2002
Jeffrey D. Kastner	Chief Financial Officer General Counsel and Secretary	53	1995
Jean Picard	Vice President of Package Store Operations	68	2002

Flanigan's 401(k) Plan

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Effective July 1, 2004, the Company began sponsoring a 401(k) retirement plan covering substantially all employees who meet certain eligibility requirements. Employees may contribute elective deferrals to the plan up to amounts allowed under the Internal Revenue Code. The Company is not required to contribute to the plan but may make discretionary profit sharing and/or matching contributions. During the fiscal years ended September 30, 2006 and October 1, 2005, the Board of Directors approved discretionary matching contributions totaling \$12,000 and \$37,500, respectively.

Subsequent Events

(a) Closing of Purchase of New Restaurant Location, (Pembroke Pines, FL.):

Subsequent to the end of fiscal year 2006, a limited partnership was formed with the Company as general partner, which limited partnership entered into a new lease for the business premises and closed on the purchase of the existing restaurant in Pembroke Pines, Florida. The purchase price was reduced from \$500,000 to \$305,000 due to the fact that site plan restrictions in the plat where the business premises is located would not permit outdoor seating and the liquor license owned by the seller was a restaurant liquor license, with no market value, rather than a quota liquor license, with a market value of \$145,000, as contracted. The Company modified its building plans to limit its renovations to the interior of the business premises, thereby avoiding the need for site plan approval.

(b) Purchase of Real Property Subject to Ground Lease, (Hallandale, FL.):

Subsequent to the end of fiscal year 2006, the Company simultaneously entered into a contract and closed on the purchase of the real property which is subject to a ground lease owned by the Company at its combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida, (Store #31). The purchase price for this property was \$552,500, which was partially financed with an advance of \$250,000 on the mortgage procured by the Company during the fourth quarter of fiscal year 2006 to purchase the limited liability company which owns the real property and the ground lease at this location.

18

(c) Purchase of Real Property Subject to Ground Lease, (North Miami, FL.):

Subsequent to the end of fiscal year 2006, the Company entered into a contract and closed on the purchase of the real property which is subject to a ground lease owned by the Company and subleased to an unrelated third party located at 732 - 734 N.E. 125th Street, North Miami, Florida (Store #27). The purchase price for this property was \$250,000, which was paid in cash by the Company at closing.

(d) Internal Revenue Service Audit of Company's Corporate Income Tax Return for the Fiscal Year Ending October 1, 2005:

Subsequent to the end of fiscal year 2006, the Company received notification from the Internal Revenue Service that its corporate income tax return for the fiscal year ending October 1, 2005 was being audited. The audit was completed prior to the end of the first quarter of fiscal year 2007, with the Company agreeing that the sum of \$107,000 was due as additional corporate income tax for the fiscal year ending October 1, 2005. Of the deductions

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

disallowed by the Internal Revenue Service, only \$12,000 represents a permanent disallowance of deductions. The impact of the audit results is fully accounted for in the fiscal year ended September 30, 2006.

(e) Re-Financing of Corporate Offices

Subsequent to the end of fiscal 2006, the Company re-financed the mortgage note encumbering the Company's corporate offices. The new mortgage, in the original principal amount of \$1,000,000, bears interest at the rate of 7.25% per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$8,000, with the entire principal balance and all accrued interest due in seven (7) years. The pre-payment of the original mortgage note, which otherwise matured in August, 2008, incurred a prepayment penalty of approximately \$17,000.

(f) Increase in Line of Credit

Subsequent to the end of fiscal 2006, the Company increased its line of credit from \$2,000,000 to \$2,650,000, under the same terms and conditions as the original line of credit. However, the Company granted its lender a second mortgage on its corporate office as additional collateral for the increase in the line of credit. The Company drew an additional \$1,200,000, raising the total balance outstanding to \$1,962,000.

Item 1A Risk Factors

An investment in the Company's common stock involves a degree of risk. These risks should be considered carefully with the uncertainties described below, and all other information included in this Annual Report on Form 10-K, before deciding whether to purchase the Company's common stock. Additional risks and uncertainties not currently known to management or that management currently deems immaterial may also become important factors that may harm the Company's business, financial condition or results or operations. The occurrence of any of the following risks could harm the Company's business,

19

financial condition and results of operations. The trading price of the Company's common stock could decline due to any of these risks and uncertainties, and you may lose part or all of your investment.

Certain statements in this report contain forward-looking information. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items and assumptions underlying any of the foregoing. Forward-looking statements reflect management's current expectations regarding future events and use words such as "anticipate", "believe", "expect", "may", "will" and other similar terminology. These statements speak only as of the date they were made and involve a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Several factors, many beyond the Company's control, could cause actual results to differ materially from management's expectations.

Planned Expansion May Not Be Successful

The Company, as general partner of two limited partnerships, has submitted its building plans to the appropriate governmental agencies for

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

building permits to build two (2) new restaurants in its existing South Florida market and expects, at a minimum, to open these two (2) new restaurants in fiscal year 2007. The Company's ability to open and profitably operate restaurants and/or package liquor stores is subject to various risks such as identification and availability of suitable and economically viable locations, the negotiation of acceptable leases or the purchase terms of existing locations, the availability of limited partner investors, the need to obtain all required governmental permits (including zoning approvals) on a timely basis, the need to comply with other regulatory requirements, the availability of necessary contractors and subcontractors, the availability of construction materials and labor, the ability to meet construction schedules and budgets, variations in labor and building material costs, changes in weather or other acts of God that could result in construction delays and adversely affect the results of one or more restaurants and/or package liquor stores for an indeterminate amount of time. If the Company is unable to unsuccessfully manage these risks, it could face increased costs and lower than anticipated revenues and earnings in future periods.

General Economic Factors May Adversely Affect Results of Operations

National, regional and local economic conditions, such as recessionary economic cycles, a protracted economic slowdown or a worsening economy, could adversely affect disposable consumer income and consumer confidence. Unfavorable changes in these factors or in other business and economic condition affecting the Company's customers could reduce customer traffic in some or all of the Company's restaurants and/or package liquor stores, impose practical limits on pricing and increase costs, any of which could lower profit margins and have a material effect on the Company's results of operations.

20

Changes in Customer Preferences for Casual Dining Styles Could Adversely Affect Financial Performance

Changing customer preferences, tastes and dietary habits can adversely impact the Company's business and financial performance. The Company offers a large variety of entrees, side dishes and desserts and its continued success depends, in part, on the popularity of its cuisine and casual style of dining. A change from this dining style may have an adverse effect on the Company's business.

Labor Shortages, an Increase in Labor Costs, or Inability to Attract Employees Could Harm Company Business

The Company's employees are essential to the operation of the Company restaurants and/or package liquor stores and the Company's ability to deliver an enjoyable dining experience to its customers. If the Company is unable to attract and retain enough qualified restaurant and/or package liquor store personnel at a reasonable cost, and if they do not deliver an enjoyable dining experience, the Company's results may be negatively affected. Additionally, competition for qualified employees could require the Company to pay higher wages, which could result in higher labor costs.

Increases in Employee Minimum Wages by the Federal or State Government Could Adversely Affect Business

Certain of the Company employees are paid wages that relate to federal and state minimum wage rates. Increases in the minimum wage rates, such as annual cost of living increases in the State of Florida minimum wage, may significantly increase labor costs. In addition, since the Company's business is labor-intensive, shortages in the labor pool or other inflationary pressure could increase labor costs, which could harm the Company's financial performance.

Fluctuations in Commodity Prices and Availability of Commodities Including Pork, Beef, Fish, Poultry and Dairy Could Affect Company Business

A significant component of the Company's costs are related to food commodities including pork, beef, fish, poultry and dairy products. If there is a substantial increase in prices for these products and the Company is unable to offset the increases with changes in menu prices, the Company's results could be negatively affected.

21

Due to the Company's Geographic Locations, Restaurants are Subject to Climate Conditions that Could Affect Operations

All but one (1) of the Company restaurants and package liquor stores are located in South Florida, with the remaining restaurant located in Central Florida. During hurricane season, (June 1st through November 30th each year), the Company's restaurants and/or package liquor stores may face harsh weather associated with hurricanes and tropical storms. These harsh weather conditions may make it more difficult for customers to visit the Company's restaurants and package liquor stores, or may necessitate the closure of the same for a period of time. If customers are unable to visit the Company's restaurants and/or package liquor stores, Company sales and operating results may be negatively affected.

Due to the Company's Geographic Locations, the Company May Not be Able to Get Windstorm Insurance Coverage or Adequate Windstorm Insurance Coverage at a Reasonable Rate

Due to the anticipated active hurricane seasons in South Florida in the future, the Company may not be able to get windstorm insurance coverage for its restaurant and package liquor store locations on a year-to-year basis or may not be able to get adequate windstorm insurance coverage at reasonable rates. If the Company is unable to get windstorm insurance coverage or adequate windstorm insurance coverage at reasonable rates, then the Company will be self-insured for all or a part of the exposure for damages caused by a hurricane impacting South Florida, which may have a material adverse effect upon the financial condition and/or results of operations of the Company.

Inability to Attract and Retain Customers Could Affect Results of Operations

The Company takes pride in its ability to attract and retain customers, however, if the Company does not deliver an enjoyable dining experience for its

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

customers, they may not return and results may be negatively affected.

The Company Faces Competition in the Restaurant and Liquor Industries, and if the Company is Unable to Compete Effectively, its Business and Financial Performance will be Adversely Affected

The restaurant and liquor industries are intensely competitive and are affected by changes in customer tastes, dietary habits and by economic and demographic trends. New menu items, concepts and trends are constantly merging. The Company competes on quality, variety, value, service, price and location. If the Company is unable to compete effectively, its business, financial condition and results of operations will be materially adversely affected.

22

Item 2. Properties

The Company's operations are conducted primarily on leased property with the exceptions including (i) the Corporate Headquarters Office Building which was purchased in December, 1999 and has been occupied by the Company since April 2001; (ii) the real property and improvements of the Company's combination restaurant and liquor package store in Hallandale, Florida; and (iii) subsequent to the end of fiscal year 2006, the real property and improvements in North Miami, Florida subleased by the Company to an unrelated third party. Initially most of these properties were leased by the Company on long-term ground and building leases with the buildings either constructed by the lessors under build-to-suit leases or constructed by the Company. A relatively small number of business locations involve the lease or acquisition of existing buildings. In almost every instance where the Company initially owned the land or building on leased property, the Company entered into a sale and lease-back transaction with investors to recover a substantial portion of its per unit investment.

All of the Company's units require periodic refurbishing in order to remain competitive. The Company has budgeted \$800,000 for its refurbishing program for fiscal year 2007. See Item 7, "Liquidity and Capital Resources" for discussion of the amounts spent in fiscal year 2006.

The following table summarizes the Company's properties as of September 30, 2006 including franchise locations, a club and Company managed locations.

Name and Location	Square Footage	Seats	Franchise/ License Owned by	Lease Terms
-----	-----	-----	-----	-----
Big Daddy's Liquors #4 Flanigan's Enterprises Inc. (10) 7003 Taft Street Hollywood, FL	1,978	N/A	Company	3/1/02 to 2/28/27 and Options to 2/28/37
Big Daddy's Liquors #7 Flanigan's Enterprises Inc. 1550 W. 84th Street Hialeah, FL	1,450	N/A	Company	11/1/00 to 10/31/07 and Annual Options to 10/31/15

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Big Daddy's Liquors #8 Flanigan's Enterprises Inc. 959 State Road 84 Fort Lauderdale, FL	1,800	N/A	Company	5/1/99 to 4/30/14
Flanigan's Seafood Bar and Grill #9 Flanigan's Enterprises Inc. (1)	4,300	130	Company	10/1/71 to 12/31/09 New lease 1/1/10 to 12/31/14 Options to
		23		
			Franchise/ License Owned by	Lease Terms
-----	-----	-----	-----	-----
1550 W. 84th Street Hialeah, FL				12/31/24
Flanigan's Legends Seafood Bar and Grill #11, 11 Corporation (3) 330 Southern Blvd. W. Palm Beach, FL	5,000	150	Franchise	1/4/00 to 1/3/20 Option to 1/3/25
Flanigan's Legends Seafood Bar and Grill #12 Galeon Tavern, Inc. (3) 2401 Tenth Ave. North Lake Worth, FL	5,000	180	Franchise	11/15/92 to 11/15/07 Option to 11/15/12
Flanigan's Seafood Bar and Grill #14, Big Daddy's #14, Inc. (2) (3) (5) (9) 2041 NE Second St. Deerfield Beach, FL	3,320	90	Franchise	6/1/79 to 6/1/09 Options to 6/1/19
Piranha Pats II-#15 CIC Investors #15 Ltd. (3) (5) 1479 E. Commercial Blvd. Ft. Lauderdale, FL	4,000	90	Franchise/ Limited Partnership	3/2/76 to 8/31/11
Flanigan's Seafood Bar and Grill #18 Twenty Seven Birds Corp. (2) (3) (5) 2721 Bird Avenue Miami, FL	4,300	100	Franchise	2/15/72 to 12/31/10 Options to 12/31/20
Flanigan's Seafood Bar and Grill #19 Flanigan's Enterprises Inc. (2) (4) 2505 N. University Dr. Hollywood, FL	4,500	160	Company	3/1/72 to 12/31/10 Options to 12/31/20
Flanigan's Seafood Bar and Grill #20	5,100	140	Company	7/15/68 to 12/31/07 Annual options

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Flanigan's Enterprises
Inc. (2)
13205 Biscayne Blvd.
North Miami, FL

until the Company
fails to exercise
Additional Lease
5/1/69 to 12/31/07
Annual options
until the Company
fails to exercise

24

Name and Location -----	Square Footage -----	Seats -----	Franchise/ License Owned by -----	Lease Terms -----
Flanigan's Seafood Bar and Grill #22 Flanigan's Enterprises Inc. (2) (4) 2600 W. Davie Blvd. Ft. Lauderdale, FL	4,100	200	Company	12/16/68 to 12/31/10 Options to 12/31/20 Option to purchase
Flanigan's Enterprises Inc. #27 (8) (11) 732-734 NE 125th St. North Miami, FL	3,000	90	Company	Company Owned
Flanigan's Seafood Bar and Grill #31, Flanigan's Enterprises Inc. (2) (12) 4 N. Federal Highway Hallandale, FL	4,600	150	Company	Company Owned
Flanigan's Guppy's Seafood Bar and Grill #33 Guppies, Inc. (2) (3) (5) 45 S. Federal Highway Boca Raton, FL	4,620	130	Franchise	11/1/03 to 4/30/11
Big Daddy's Liquors #34, Flanigan's Enterprises, Inc. (1) 9494 Harding Ave. Surfside, FL	3,000	N/A	Company	5/29/97 to 5/28/07 Options to 5/28/17
Flanigan's Seafood Bar and Grill #40 Flanigan's Enterprises Inc. (2) 5450 N. State Road 7 Ft. Lauderdale, FL	4,600	140	Company	4/1/71 to 12/31/10 Options to 12/31/15
Piranha Pat's #43 BD 43 Corporation (2) (3) (5) 2500 E. Atlantic Blvd. Pompano Beach, FL	4,500	90	Franchise	12/1/72 to 11/30/07 Options to 11/30/19
Big Daddy's Liquors #47, Flanigan's Enterprises, Inc. (6)	6,000	N/A	Company	12/21/68 to 1/1/10 Options to 1/1/60

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

8600 Biscayne Blvd.
Miami, FL

25

Name and Location -----	Square Footage -----	Seats -----	Franchise/ License Owned by -----	Lease Terms -----
Flanigan's Seafood Bar and Grill #13, CIC Investors #13, Ltd 11415 S. Dixie Highway Pinecrest, FL	8,000	200	Limited Partnership	06/01/91 to 5/31/11 Options to 5/31/21
Flanigan's Seafood Bar and Grill #50, CIC investors #50, Ltd. (13) 17185 Pines Boulevard Pembroke Pines, FL	4,000	200	Limited Partnership	10/24/06 to 10/24/11 Options to 10/24/26
Flanigan's Seafood Bar and Grill #60, CIC Investors #60 Ltd. 9516 Harding Avenue Surfside, FL	6,800	200	Limited Partnership	8/1/97 to 12/31/11
Flanigan's Seafood Bar and Grill #65 CIC Investors #65, Ltd 2335 State Road 7, Suite 100 Wellington, FL	6,128	200	Limited Partnership	4/01/05 to 3/31/15 Options to 3/31/25
Flanigan's Seafood Bar and Grill #70 CIC Investors #70 Ltd. 12790 SW 88 St Kendall, FL	4,850	161	Limited Partnership	4/1/98 to 3/31/08 Options to 3/31/28
Flanigan's Seafood Bar and Grill #75 CIC Investors # 75 Ltd. 950 S. Federal Highway Stuart, FL 34994	7,000	200	Limited Partnership	10/1/03 to 9/30/09 Options to 9/30/27
Flanigan's Seafood Bar and Grill #80 CIC Investors #80 Ltd. 8695 N.W. 12th St Miami, FL	5,000	165	Limited Partnership	6/15/01 to 12/14/19 Options to 12/14/39
Flanigan's Seafood Bar and Grill #95 CIC Investors #95 Ltd. 2460 Weston Road Weston, FL	5,700	235	Limited Partnership	7/29/01 to 7/28/17 Options to 7/28/32

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

26

Name and Location -----	Square Footage -----	Seats -----	Franchise/ License Owned by -----	Lease Terms -----
Mardi Gras Flanigan's Enterprises, Inc., #600 (7) (14) Powers Ferry Landing Atlanta, GA	10,000	400	Company	4/30/06 to 4/30/16 Option to 4/30/26

- (1) License subject to chattel mortgage.
- (2) License pledged to secure lease rental.
- (3) Franchised by Company.
- (4) Former franchised unit returned and now operated by Company.
- (5) Lease assigned to franchisee.
- (6) The Company owns 48% of the underlying leasehold from the unaffiliated third parties to whom the lease had been assigned and subleased back.
- (7) Location managed by an unaffiliated third party.
- (8) Location was closed in May 1998. The Company entered into a five year sublease agreement, with two five year options, with an unaffiliated third party who is presently operating a restaurant at this location.
- (9) Effective December 1, 1998, the Company purchased the Management Agreement to operate the franchised restaurant for the franchisee.
- (10) Ground lease executed by the Company on September 25, 2001. The Company constructed a building of 4,120 square feet, 1,978 square feet is used by the Company for the operation of a package liquor store and the other 2,142 square feet is subleased as retail space. The package liquor store opened for business on November 17, 2003.
- (11) Subsequent to the end of fiscal year 2006, the Company purchased the real property subject to the ground lease of this location.
- (12) During the fourth quarter of fiscal year 2006, the Company purchased the real property and for an assignment of a ground lease of this location pursuant to an option to purchase contained in the Sublease Agreement. Subsequent to the end of fiscal year 2006, the Company purchased the real property subject to the ground lease.
- (13) Location estimated to open for business during the third quarter of fiscal year 2007.
- (14) During the third quarter of fiscal year 2006, the Company's lease for this location expired. The unaffiliated third party entered into a new lease for the business premises effective May 1, 2006. The Company has no liability on the new lease.

27

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Exercise of Option to Purchase; Purchase of Limited Liability Company.

During the fourth quarter of fiscal year 2006, the Company closed on the purchase of 100% of the membership interest of the limited liability company which owns the real property and ground lease for a small portion of the property of the Company's combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida, (Store #31) for total consideration of \$3,876,000, including a purchase price of \$3,862,500, pursuant to a Mediation Settlement Agreement. The limited liability company became a wholly owned subsidiary of the Company. The purchase was financed by a \$3,280,000 mortgage. As collateral for the mortgage, the limited liability company granted the lender a first mortgage on its real property and a leasehold mortgage on the ground lease, while the Company granted a first mortgage on its parking lot adjacent to the above-described business location. The Company's grant of a first mortgage on its parking lot included the satisfaction of the purchase money mortgage on the same for \$266,000. The new mortgage bears interest at the rate of seven and one-half (7 1/2%) percent per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$26,400, with the entire principal balance and all accrued interest due in seven (7) years.

Item 3. Legal Proceedings.

The corporate offices consist of a two (2) story building, with space initially set aside on the ground floor for a package liquor store. The Company filed suit against the adjacent shopping center to determine the Company's right to non-exclusive parking in the shopping center. During fiscal year 2005, summary judgment was granted in favor of the adjacent shopping center denying the Company non-exclusive parking rights in the shopping center. The Company continued pursuing its claim against the seller of the building, its individual partners and its attorney for damages for failing to disclose documents pertaining to the release of the non-exclusive parking rights. During the first quarter of fiscal year 2006, summary judgment was granted in favor of the sellers' attorney, but denied as to the seller and its individual partners. During the third quarter of fiscal year 2006, the summary judgment granted in favor of the sellers' attorney was reversed by the court. The Company is appealing the granting of the summary judgment in favor of the adjacent shopping center, which appeal is necessary to proceed against the seller and its individual partners even though the Company no longer plans to use the ground floor for a package liquor store.

Subsequent to the end of fiscal year 2006, the Company filed suit against the landlord of the limited partnership which owns the restaurant in Pinecrest, Florida seeking to recover the cost of structural repairs to the business premises which it contends were the responsibility of the landlord pursuant to the terms of the lease and to recover rent paid while the structural repairs delayed the renovation of the business premises. The complaint includes a count by the limited partnership seeking a determination by the court that it has the exclusive right to the use of the pylon sign in

28

front of the business premises. The landlord has denied liability for structural repairs to the business premises, refused to reimburse the limited partnership for any rent paid while structural repairs delayed its renovations and denied the limited partnership the exclusive use of the pylon sign.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Certain states have liquor liability (dram shop) laws which allow a person injured by an "obviously intoxicated person" to bring a civil suit against the business (or social host) who had served intoxicating liquors to an already "obviously intoxicated person". Dram shop claims normally involve traffic accidents and the Company generally does not learn of dram shop claims until after a claim is filed and then the Company vigorously defends these claims on the grounds that its employee did not serve an "obviously intoxicated person". Damages in most dram shop cases are substantial. At the present time, there are no dram shop cases pending against the Company. The Company maintains general liability insurance. See Item 1, "Insurance" on page 14 of this annual report of Form 10-K for a discussion of general liability insurance.

There is no material pending legal proceedings, other than ordinary routine litigation incident to the business, none of which the Company believes is material.

Item 4. Submission of Matters to a Vote of Security Holders.

During the fourth quarter of fiscal year 2006 the Company did not submit any matter to a vote of the security holders.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

	Fiscal 2006		Fiscal 2005		Fiscal 2004	
	High	Low	High	Low	High	Low
First quarter	10.55	9.38	7.35	6.20	6.85	6.00
Second quarter	10.40	9.09	9.35	6.97	6.90	6.13
Third quarter	11.29	9.45	9.40	7.16	6.70	7.16
Fourth quarter	12.30	7.86	9.90	8.90	6.65	6.21

On December 9, 2004, the Company declared a cash dividend of 32 cents per share payable on January 28, 2005 to shareholders of record on January 14, 2005.

On January 13, 2006, the Company declared a cash dividend of 35 cents per share payable on February 15, 2006 to shareholders of record on January 31, 2006.

29

Item 6. Selected Financial Data. (In thousands - except EPS)

	2002	2003	2004	2005	2006
Statement of Operations Data					
Revenue	\$39,124	\$40,253	\$45,933	\$49,032	\$55,014

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Income from Operations	\$ 2,788	\$ 2,024	\$ 1,273	\$ 2,166	\$ 1,699
<hr style="border-top: 1px dashed black;"/>					
Net income	\$1,383	\$ 888	\$ 440	\$ 1,107	\$ 1,250
<hr style="border-top: 1px dashed black;"/>					
Earnings per share	\$ 0.71	\$ 0.46	\$ 0.23	\$ 0.58	\$ 0.66
<hr style="border-top: 1px dashed black;"/>					
Balance Sheet Data					
<hr style="border-top: 1px dashed black;"/>					
Total assets	\$17,367	\$18,733	\$19,774	\$21,099	\$27,398
<hr style="border-top: 1px dashed black;"/>					
Long term liabilities	\$ 1,593	\$ 1,314	\$ 1,217	\$ 1,383	\$ 4,958
<hr style="border-top: 1px dashed black;"/>					
Net working capital	\$ 2,980	\$ 2,093	\$ 2,131	\$ 2,137	\$ 1,396
<hr style="border-top: 1px dashed black;"/>					
Stockholders' equity	\$ 9,957	\$10,351	\$10,101	\$10,273	\$10,792
<hr style="border-top: 1px dashed black;"/>					
Dividends declared	\$ 499	\$ 520	\$ 581	\$ 609	\$ 658
<hr style="border-top: 1px dashed black;"/>					

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company owns and/or operates restaurants with lounges, package liquor stores and an adult entertainment oriented club. As of September 30, 2006, the Company operated twenty one units. The Company had interests in an additional seven units which were franchised by the Company, including the franchised restaurant managed by the Company. Of the units operated by the Company, four were combination package liquor store and restaurant, eleven were restaurants only and five were package liquor stores only. There was one restaurant operated by the Company for an unrelated third party under a management agreement and one club operated by an unaffiliated third party for the Company under a management agreement. During fiscal year 2001, the

30

Company entered into a ground lease and constructed a building in Hollywood, Florida for the operation of a package liquor store from one half (1/2) of the building and to sublease retail space from the other one half (1/2). The package liquor store opened for business during the first quarter of fiscal year 2004 and the retail space was subleased during the second quarter of fiscal year 2004. At the start of the second quarter of fiscal year 2004, a restaurant located in Stuart, Florida, owned by a limited partnership of which the Company acts as general partner, opened for business. During the third quarter of fiscal year 2005, a restaurant located in Wellington, Florida, owned by a limited partnership of which the Company acts as general partner, opened for business. At the start of the second quarter of fiscal year 2006, the Company assumed management of a restaurant owned by an unaffiliated third party. During the fourth quarter of fiscal year 2006, a restaurant located in Pinecrest, Florida, owned by a limited partnership of which the Company acts as general partner, opened for business.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Results of Operations

THE FISCAL YEARS ENDING SEPTEMBER 30, 2006, ("FISCAL 2006") and OCTOBER 1, 2005, ("FISCAL 2005"), WERE FIFTY TWO WEEK FISCAL YEARS. THE FISCAL YEAR ENDING OCTOBER 2, 2004, ("FISCAL 2004"), WAS A FIFTY THREE WEEK FISCAL YEAR AND THE EXTRA WEEK IN FISCAL YEAR 2004 CONTRIBUTED TO INCREASES IN REVENUES AND EXPENSES FOR THE FISCAL YEAR WHEN COMPARING THEM TO REVENUES AND EXPENSES FOR THE FISCAL YEARS 2006 and 2005, WITH THE EXCEPTION OF THE WEEKLY AVERAGE OF SAME STORE SALES.

REVENUES (in thousands):

	Fifty Two Weeks Ended Sept. 30, 2006		Fifty Two Weeks Ended Oct. 1, 2005		Fifty Three Weeks Ended Oct. 2, 2004	
Sales						
Restaurant, food	\$32,847	61.4%	\$29,219	61.3%	\$26,347	59.1%
Restaurant, bar	7,610	14.2%	6,610	13.9%	7,351	16.5%
Package goods	13,046	24.4%	11,810	24.8%	10,911	24.4%
Total	53,503	100.0%	47,639	100.0%	44,609	100.0%
Franchise revenues						
	1,114		984		958	
31						
Owners fee	224		261		265	
Other operating income	173		148		101	
Total Revenues	\$55,014		\$49,032		\$45,933	

Comparison of Fiscal Years Ended September 30, 2006 and October 1, 2005

As the table above illustrates, total revenues for fiscal 2006 increased by 12.2% when compared to fiscal 2005. The increase in total revenues for fiscal 2006 was primarily due to the restaurant in Pinecrest, Florida

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

opening during the fourth quarter of fiscal 2006, the restaurant in Wellington, Florida being open for the entire fiscal 2006, increases in same store sales and menu price increases. During fiscal year 2007, ("fiscal 2007"), total revenues are expected to continue increasing primarily due to the restaurant in Pinecrest, Florida being open for the entire fiscal year, the anticipated opening of the restaurants in Pembroke Pines, Florida and Davie, Florida during the third quarter of fiscal 2007, increased volume and menu price increases.

Restaurant food sales represented 61.4% of total sales for fiscal 2006 as compared to 61.3% of total sales for fiscal 2005. The weekly average of same store restaurant food sales, which includes five (5) limited partnership restaurants, was \$568,000 for fiscal 2006 as compared to \$540,000 for fiscal 2005, an increase of 5.2%. The weekly average of restaurant food sales increased for fiscal 2006 as compared to fiscal 2005 due to increased volume and menu price increases. The percentage of restaurant food sales to total sales is expected to increase during fiscal 2007 due to the opening of the restaurant in Pinecrest, Florida during the fourth quarter of fiscal 2006 and the anticipated opening of the restaurants in Pembroke Pines, Florida and Davie, Florida during the third and fourth quarters of fiscal 2007, respectively.

Restaurant bar sales represented 14.2% of total sales for fiscal 2006 as compared to 13.9% of total sales for fiscal 2005. The weekly average of same store restaurant bar sales, which includes five (5) limited partnership restaurants, was \$131,000 for fiscal 2006 as compared to \$122,000 for fiscal 2005, an increase of 7.4%. During fiscal 2006, the Company continued offering promotions at the bars only, during limited hours, which promotions began during fiscal 2005. With this promotion, the increase in the weekly average of same store restaurant bar sales is expected to continue, but management is careful to preserve and continue promoting the Company's perception as a family restaurant.

Package store sales represented 24.4% of total sales for fiscal 2006 as compared to 24.8% of total sales for fiscal 2005. The weekly average of

32

same store package sales was \$223,000 for fiscal 2006 as compared to \$192,000 for fiscal 2005, an increase of 16.1%. The increase was primarily due to increased volume. During fiscal 2007, package store sales are expected to remain constant due to increased competition.

The gross profit margin for restaurant sales was 65.5% for fiscal 2006 as compared to 65.1% for fiscal 2005. The Company offset increased costs during fiscal 2006 with menu price increases, which resulted in an increased gross profit margin for restaurant sales when compared to fiscal 2005. Notwithstanding the increased gross profit margin for restaurant sales during fiscal 2006 when compared to fiscal 2005, during the fourth quarter of fiscal 2006 the gross profit margin for restaurant sales was 64.1%, as compared to 66.0% for the fourth quarter of fiscal 2005. The decline of 1.9% in gross profit margin contributed to an operating loss of \$135,000 for the fourth quarter of fiscal 2006. Due to the decline in gross profit margin for restaurant sales during the fourth quarter of fiscal 2006 and the expectation that costs will continue increasing during fiscal 2007, the Company instituted menu price increases during the first quarter of fiscal 2007 to restore and maintain its gross profit margin for restaurant sales.

The gross profit margin for package store sales was 28.6% for fiscal 2006 and fiscal 2005. The gross profit margin for package good sales is expected to remain constant during fiscal 2007.

Operating Costs and Expenses

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Operating costs and expenses for fiscal 2006 were \$53,315,000 as compared to \$46,866,000 for fiscal 2005, an increase of 13.8%. Operating expenses are comprised of the cost of merchandise sold, payroll and related costs, occupancy costs and selling, general and administrative expenses. The increase in operating costs and expenses for fiscal 2006 was primarily due to the opening of the new restaurant in Pinecrest, Florida during the fourth quarter of fiscal 2006, the restaurant in Wellington, Florida being open for the entire fiscal year, increased payroll and related costs, as well as a general increase in overall operating costs and expenses. During fiscal 2007, operating costs and expenses are expected to continue increasing primarily due to the restaurant in Pinecrest, Florida being open for the entire fiscal year, the anticipated opening of the new restaurants in Pembroke Pines, Florida and Davie, Florida during the third and fourth quarters of fiscal 2007, respectively and a general increase in overall operating costs and expenses.

Payroll and related costs were \$16,062,000 for fiscal 2006, as compared to \$13,636,000 for fiscal 2005, an increase of 17.8%. The increase in payroll and related costs for fiscal 2006 was primarily due to the opening of the new restaurant in Pinecrest, Florida during the fourth quarter of fiscal 2006, the impact of the Florida minimum wage which went into effect during the third quarter of fiscal 2005 and further impacted by its first annual cost of living increase effective January 1, 2006 and the restaurant in Wellington, Florida being open for the entire fiscal year. Payroll and related costs are expected to increase during fiscal 2007 due to the restaurant in Pinecrest, Florida being open for the entire fiscal year, the anticipated opening of the restaurants in Pembroke Pines, Florida and Davie, Florida during the third and fourth quarters of fiscal 2007, respectively and

33

the second annual increase in the Florida minimum wage by a cost of living increase effective January 1, 2007.

Occupancy costs, which include rent, common area maintenance, repairs and taxes were \$3,189,000 for fiscal 2006 as compared to \$2,853,000 for fiscal 2005, an increase of 11.8%. The increase in occupancy costs during fiscal 2006 was primarily due to increases in real property taxes and the payment of rent for the restaurant in Wellington, Florida for the entire fiscal year.

Selling, general and administrative expenses were \$10,800,000 for fiscal 2006 as compared to \$9,439,000 for fiscal 2005, an increase of 14.4%. The increase in selling, general and administrative expenses during fiscal 2006 was primarily due to the opening of the new restaurant in Pinecrest, Florida during the fourth quarter of fiscal 2006, the restaurant in Wellington, Florida having been open the entire fiscal year and a general increase in overall expenses, including but not limited to utilities. Selling, general and administrative expenses are expected to increase during fiscal 2007 due to the restaurant in Pinecrest, Florida being open for the entire fiscal year; the anticipated opening of the restaurants in Pembroke Pines, Florida and Davie, Florida; increase in insurance costs and an overall increase in expenses.

Other Income and Expenses

Other income and expenses, which excludes minority interest in consolidated limited partnerships, were income of \$613,000 for fiscal 2006 as compared to an expense of (\$113,000) for fiscal 2005. Other income and expense for fiscal 2006 includes insurance recovery, net of casualty loss, of \$666,000 which includes the deletion of the net book value of property and equipment as a result of Hurricane Wilma (\$64,000), repair of damage (\$138,000) and food waste

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

(\$61,000), caused by Hurricane Wilma, offset by insurance recoveries of \$929,000, (\$979,000 less a \$50,000 deductible), from the Company's insurance carrier.

Comparison of Fiscal Years Ended October 1, 2005 and October 2, 2004

As the table above also illustrates, total revenues for fiscal 2005 increased by 6.7% when compared to fiscal 2004.

Restaurant food sales represented 61.3% of total sales for fiscal 2005 as compared to 59.1% of total sales for fiscal 2004. The weekly average of same store restaurant food sales, which now includes three (3) limited partnership restaurants instead of one (1), was \$444,000 for fiscal 2005 as compared to \$404,000 for fiscal 2004, an increase of 9.9%. The weekly average of restaurant food sales increased for fiscal 2005 as compared to fiscal 2004 due to increased volume and menu price increases.

Restaurant bar sales represented 13.9% of total sales for fiscal 2005 as compared to 16.5% of total sales for fiscal 2004. The weekly average of same store restaurant bar sales was \$99,000 for fiscal 2005 as compared to \$101,000 for fiscal 2004, a decrease of 2.0%. During fiscal 2005 the Company

34

began offering promotions at the bars only, during limited hours. With this promotion, the increase in the weekly average of same store restaurant bar sales is expected to continue, but management is careful to preserve and continue promoting the Company's perception as a family restaurant.

Package store sales represented 24.8% of total sales for fiscal 2005 as compared to 24.4% of total sales for fiscal 2004. The weekly average of same store package sales was \$192,000 for fiscal 2005 as compared to \$180,000 for fiscal 2004, an increase of 6.7%. The increase was primarily due to increased volume.

The gross profit margin for restaurant sales was 65.1% for fiscal 2005 as compared to 64.4% for fiscal 2004. The Company offset increased costs during fiscal 2005 with menu price increases, which resulted in an increased gross profit margin for restaurant sales when compared to fiscal 2004.

The gross profit margin for package store sales was 28.6% for fiscal 2005 as compared to 27.9% for fiscal 2004. For fiscal 2005, the increase in gross profit is attributed to the purchase of "close out" and inventory reduction merchandise from wholesalers and the continued implementation of a training program for package store employees.

Operating Costs and Expenses -----

Operating costs and expenses for fiscal 2005 were \$46,866,000 as compared to \$44,660,000 for fiscal 2004. Operating expenses are comprised of the cost of merchandise sold, payroll and related costs, occupancy costs and selling, general and administrative expenses. Operating costs and expenses for fiscal 2005 increased by 4.9% as compared to operating costs and expenses for fiscal 2004. The increase in operating costs and expenses for fiscal 2005 was primarily due to the opening of the new restaurant in Wellington, Florida during the third quarter of fiscal 2005, the restaurant in Stuart, Florida and the package store in Hollywood, Florida being open for the entire fiscal year, as well as a general increase in overall operating costs and expenses.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Payroll and related costs were \$13,636,000 for fiscal 2005, as compared to \$12,523,000 for fiscal 2004, representing increases of 8.9%. The increase in payroll and related costs for fiscal 2005 was primarily due to the opening of the new restaurant in Wellington, Florida during the third quarter of fiscal 2005, the new Florida minimum wage which went into effect during the third quarter of fiscal 2005 and the restaurant in Stuart, Florida and the package store in Hollywood, Florida being open for the entire fiscal year.

Occupancy costs, which include rent, common area maintenance, repairs and taxes were \$2,853,000 for fiscal 2005 as compared to \$2,740,000 for fiscal 2004. The increase in occupancy costs during fiscal 2005 was due primarily to the payment of rent for the new restaurant in Wellington, Florida.

Selling, general and administrative expenses were \$9,439,000 for fiscal 2005 as compared to \$9,525,000 for fiscal 2004. Excluding non-recurring expenses and/or adjustments in selling, general and administrative

35

expenses during fiscal 2004, which expenses and adjustments totaled \$467,000, the increase in selling, general and administrative expenses during fiscal 2005 was primarily due to the opening of the new restaurant in Wellington, Florida during the third quarter of fiscal 2005 and the restaurant in Stuart, Florida and the package store in Hollywood, Florida having been open the entire fiscal year.

During fiscal 2004, the following non-recurring expenses and/or adjustments in selling, general and administrative expense adversely effected earnings:

First Quarter Fiscal Year 2004:

b.	Adjustment for store supplies	\$104,000
----	-------------------------------	-----------

Second Quarter Fiscal Year 2004:

a.	Adjustment for allocations of insurance premiums related to franchises:	\$178,000
b.	Past Due Real Property Taxes	\$ 52,000
c.	Excess opening costs of joint venture restaurant in Stuart, Florida	\$ 74,000

Third Quarter Fiscal Year 2004:

a.	Past Due Real Property Taxes	\$ 59,000

Total:		\$467,000

Other Income and Expenses

Other income and expenses were an expense of (\$113,000) for fiscal 2005 as compared to (\$362,000) for fiscal 2004. Other income and expense of fiscal 2005 includes the expense of (\$121,000) relating to the abandonment of fixed assets, as compared to the expense of (\$367,000) for fiscal 2004.

New Limited Partnership Restaurants

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

As the Company opens new limited partnership restaurants on a more regular basis, the Company's profitability may be reduced by the higher costs associated with the opening of the same for a period of up to 90 days. To insure that a new restaurant opens with the high quality of service for which the Company is known, the Company has a select group of employees, known as "new restaurant openers", who travel to new restaurants for that purpose. "New restaurant openers" may spend up to 90 days at a new restaurant. In the case of a new limited partnership restaurant which is not local, lodging must be provided for the "new restaurant openers", which may increase the opening cost significantly over the opening cost of local restaurants. In addition,

36

immediately prior to the opening of a new restaurant and in order to provide a "test run" for the same, the Company sponsors pre-opening parties for its limited partners and the Company employees. By way of illustration, the opening of the limited partnership restaurants in Pinecrest, Florida, Wellington, Florida and Stuart, Florida during fiscal 2006, 2005 and 2004 respectively, incurred the following pre-opening and opening expenses:

	#13 - Pinecrest, Fl	#65- Wellington, Fl	#75- Stuart, Fl.
Pre-Opening Rent:	\$535,000*	\$18,000	\$17,000
Pre-Opening Payroll:	\$ 80,000	\$90,000**	\$22,000***
Post-Opening Increased			
Payroll Costs (90 days):	\$ 55,000	\$22,000**	\$42,000***
Promotional Costs:	\$ 6,000	\$ 3,000	\$ 7,000
	-----	-----	-----
Total:	\$676,000	\$133,000	\$88,000

* includes the payment of rent, (\$204,000), while structural repairs were being made.

** excludes lodging and per diem allowances, (\$51,000), for new restaurant openers incurred due to the location of this facility.

*** excludes lodging and per diem allowances, (\$74,000), for new restaurant openers incurred due to the location of this facility.

The pre-opening rent paid is generally less for new leases, rather than the purchase of an existing location which includes the assumption of an existing lease. In the negotiation of a new lease, there is normally a construction period before which the rent payments begin. However, rent expense is recognized on a straight line basis over the term of the lease for GAAP purposes, which results in a deferred rent liability. In the case of the limited partnership restaurant in Wellington, Florida, the lease agreement, as amended, included a two hundred ten (210) day period for renovations, although the restaurant did not open for seven and one half (7 1/2) months from the date possession of the business premises was turned over to the limited partnership to begin its build out. Since the opening of the limited partnership restaurant in Surfside, Florida and with the exception of the limited partnership restaurant in Pinecrest, Florida, the pre-opening rent expense for limited partnership restaurants has ranged from \$17,000 - \$137,000. The pre-opening rent expense for the limited partnership restaurant in Pinecrest, Florida is an exception to the customary pre-opening rent expense due to structural repairs which had to be made to the business premises prior to renovations beginning.

During fiscal 2006, the limited partnership restaurant in Pinecrest, Florida reported a loss of \$155,000 primarily due to pre-opening costs, thus

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

contributing to a reduction in the operating income for fiscal 2006. During fiscal 2007, operating income will be adversely affected by opening costs of the new limited partnership restaurants in Pembroke Pines, Florida and Davie, Florida.

Trends

During the next twelve months, management expects continued increases in restaurant sales due primarily to the restaurant in Pinecrest, Florida

37

being open for the entire fiscal year, the anticipated opening of the new restaurants in Pembroke Pines, Florida and Davie, Florida, and continued increases in same store sales. Package goods sales are expected to remain constant due to increased competition. Franchise royalties are expected to increase due to the new restaurant in Pinecrest, Florida, the anticipated opening of the new restaurants in Pembroke Pines, Florida and Davie, Florida and continued increases in same store sales for the limited partnerships and franchises. At the same time, management also expects higher food costs and overall expenses to increase, although the Company will continue to raise its menu prices to offset the higher food costs and overall expenses wherever competitively possible.

The Company intends to open additional restaurants as suitable locations become available, using limited partnerships, of which it is the general partner, to raise funds to own and operate the same.

The Company is not actively searching for locations for the operation of a package store, but if an appropriate location for a package store becomes available, the Company will consider the same.

Liquidity and Capital Resources

Cash Flows

The following table is a summary of the Company's cash flows for fiscal years 2006, 2005 and 2004:

	Fiscal Years		
	2006	2005	2004
	(in thousands)		
Net cash provided by operating activities	\$2,080	\$2,664	\$3,411
Net cash used in investing activities	(3,594)	(2,054)	(1,289)
Net cash provided by (used in) financing activities	538	(872)	(773)
Net increase (decrease) in cash and equivalents	(976)	(262)	1,349

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Cash and equivalents.			
beginning of year	2,674	2,936	1,587

Cash and equivalents.			
end of year	\$1,698	\$2,674	\$2,936

38

Capital Expenditures

Capital expenditures were approximately \$4,311,000, including \$531,000 as a direct result of Hurricane Wilma and \$601,000 for the acquisition of a subsidiary, \$2,095,000 and \$1,532,000 during fiscal years 2006, 2005 and 2004, respectively. During fiscal year 2006, the Company also purchased one (1) vehicle, for a purchase price of \$70,000, which vehicle was 100% financed. The capital expenditures for each fiscal year included upgrading existing units serving food and improvements to package liquor stores. The capital expenditures for fiscal year 2006 included renovations to the business premises by the limited partnership in Pinecrest, Florida, (\$1,681,000).

Contractual Cash Obligations

	Total	Less Than 1 Year	1-5 Years	After 5 Years
	-----	-----	-----	-----
Long-term debt	\$ 5,181,000	\$ 223,000	\$ 2,132,000	\$2,826,000
Operating leases	15,825,000	2,166,000	8,068,000	5,591,000
Rib Contract	2,800,000	2,800,000		
	-----	-----	-----	-----
Total	\$23,806,000	\$5,189,000	\$10,200,000	\$8,417,000
	=====	=====	=====	=====

All of the Company's units require periodic refurbishing in order to remain competitive. The budget for fiscal 2007 includes approximately \$800,000 for this purpose, which is not included in the above table. The table also does not include any lease guarantees for franchises, which guarantees total approximately \$1,570,000. The Company expects the funds for these improvements to be provided from operations. In addition, it is anticipated that during fiscal 2007, two new limited partnerships, (Pembroke Pines, Florida and Davie, Florida), will require approximately \$2,100,000 and \$2,350,000, respectively, in capital expenditures to close on the purchase of the restaurant locations, complete their renovations and preparation for opening as a "Flanigan's Seafood Bar and Grill" restaurant, which funds will be raised through a private offering. The private offering will also raise funds to reimburse the Company for any funds advanced in excess of its planned investment in these limited partnerships. The table also does not include any lease guarantees for franchisees.

Purchase Commitments

Effective December 1, 2006, the Company entered into a purchase agreement with its rib supplier. The terms of the agreement stipulate that the Company will purchase approximately \$2,800,000 of baby back ribs during calendar year 2007 at a fixed cost. The Company contracts for the purchase of baby back ribs on an annual basis to fix the cost and ensure adequate

supply for the calendar year. The Company purchases all of its rib supply from this vendor, but management believes that several other alternative vendors are available, if needed.

Purchase of Company Common Stock

Pursuant to a discretionary plan approved by the Board of Directors, during fiscal 2006, the Company purchased 14,350 shares of its common stock for an aggregate purchase price of \$139,000. Of the shares purchased, 7,500 shares of its common stock were purchased from the Chief Operating Officer and Director of the Company, during the second and third quarters of fiscal 2006, at an aggregate purchase price of \$77,000, which per share purchase price was less than the closing per share market price on the date of each purchase.

Long Term Debt

As of the end of fiscal 2006, the Company had long term debt including the line of credit of \$5,181,000, as compared to \$1,557,000 and \$1,314,000 as of the end of fiscal 2005 and 2004, respectively, increases of 232.8% and 294.3%, respectively. The net increase in long term debt as of the end of fiscal 2006, as compared to long term debt as of the end of fiscal 2005 and fiscal 2004, includes the unsecured loan from Bank Atlantic (\$762,000), one (1) secured auto loan (\$70,000) and the mortgage loan for the purchase of the membership interest of the limited liability company (\$3,280,000), reduced by the satisfaction of a purchase money mortgage (\$266,000).

The Company repaid long term debt, including the Bank of America note payable, the Bank Atlantic note payable, auto loans, mortgages and capital lease obligations in the amount of \$489,000, \$309,000 and \$278,000 in fiscal 2006, 2005 and 2004 respectively.

During the fourth quarter of fiscal 2006, the Company financed the purchase of the membership interest of the limited liability company which owns the real property and ground lease for a small portion of the property of the Company's combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida, (Store #31) with a \$3,280,000 mortgage. As collateral for the mortgage, the limited liability company granted the lender a first mortgage on its real property and a leasehold mortgage on the ground lease, while the Company granted a first mortgage on its parking lot adjacent to the above-described business location. The Company's grant of a first mortgage on its parking lot, included the satisfaction of the purchase money mortgage on the same for \$266,000. The new mortgage bears interest at the rate of seven and one-half (7 1/2%) percent per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$26,400, with the entire principal balance and all accrued interest due in seven (7) years.

Subsequent to the end of fiscal 2006, the Company received an advance of \$250,000 on the new mortgage procured by the Company to purchase the membership interest of the limited liability company which owns the real property and ground lease at the Company's combination restaurant and package

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

liquor store located at 4 N. Federal Highway, Hallandale, Florida (Store #31). The new mortgage still bears interest at the rate of seven and one-half (7 1/2%) percent per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$28,600, with the entire principal balance and all accrued interest still due on its original maturity date in seven (7) years.

Subsequent to the end of fiscal 2006, the Company re-financed the mortgage note encumbering the Company's corporate offices. The new mortgage, in the original principal amount of \$1,000,000, bears interest at the rate of 7.25% per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$8,000, with the entire principal balance and all accrued interest due in seven (7) years. The pre-payment of the mortgage note, which otherwise matured in August, 2008, incurred a prepayment penalty of \$17,000.

Subsequent to the end of fiscal 2006, the Company increased its line of credit from \$2,000,000 to \$2,650,000. The Company granted its lender a second mortgage on its corporate offices as additional collateral for the increase in the line of credit, in addition to a security interest in substantially all of the assets of the Company. The Company drew additional funds on the line of credit in the aggregate amount of \$1,200,000 raising the total balance outstanding to \$1,962,000.

As of September 30, 2006, the Company is in compliance with the affirmative covenants contained in any of its loan documents.

Working capital

The table below summarizes the current assets, current liabilities and working capital for the fiscal 2006, 2005 and 2004:

	Sept. 30 2006	Oct. 1 2005	Oct. 1 2004
Current assets	\$6,315,000	\$6,091,000	\$5,889,000
Current liabilities	4,919,000	3,954,000	3,758,000
Working capital	1,396,000	2,137,000	2,131,000

Working capital for fiscal 2006 decreased by 34.7% and 34.5% from the working capital for fiscal 2005 and 2004, respectively. The decrease in working capital during fiscal 2006, which was supplemented by a draw of \$762,000 against the Company's line of credit, was due to the purchase of the management agreement to operate the restaurant in Deerfield Beach, Florida (\$500,000); investment in the limited partnership restaurant which owns the restaurant in Pinecrest, Florida (\$1,295,000); and the purchase of the membership interest of the limited liability company which owns the real property and ground lease to a small portion of property of the Company's combination restaurant and package liquor store located at 4 N. Federal Highway, Hallandale, Florida.

Management believes that positive cash flow from operations will adequately fund operations and debt reductions, but not all of the planned

capital expenditures in fiscal 2007, which will have to be supplemented through

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

future advances on the Company's line of credit. It is also anticipated that during fiscal 2007, working capital will be adversely affected by investments and/or advances made by the Company to the limited partnerships in Pembroke Pines, Florida and/or Davie, Florida pending reimbursement of advances made by the Company in excess of its investment once the private offering by each limited partnership is completed; payment of the balance due upon completion of the installation for DSL service for all package liquor store and restaurant locations, including on-line security (\$65,000); payment of the balance of the cost of improvements to two (2) existing Company restaurants (\$168,000 estimated); purchase of a new point of sale system for Company package liquor stores (\$180,000 estimated); and the cash to close on the purchase of the real property subject to ground leases of two locations currently leased by the Company (\$600,000 estimated).

Critical Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in Item 8 of this Annual Report on Form 10-K. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions. The Company believes that the following critical accounting policies are subject to estimates and judgments used in the preparation of its consolidated financial statements:

Estimated Useful Lives of Property and Equipment

The estimate of useful lives for property and equipment are significant estimates. Expenditures for the leasehold improvements and equipment when a restaurant is first constructed are material. In addition, periodic refurbishing takes place and those expenditures can be material. Management estimates the useful life of those assets by considering, among other things, expected use, life of the lease on the building, and warranty period, if applicable. The assets are then depreciated using a straight line method over those estimated lives. These estimated lives are reviewed periodically and adjusted if necessary. Any necessary adjustment to depreciation expense is made in the income statement of the period in which the adjustment is determined to be necessary.

Consolidation of Limited Partnerships

The Company operates seven (7) restaurants as general partner of the limited partnerships that own the operations of these restaurants. Additionally, the Company expects that any expansion which takes place in opening new restaurants will also result in the Company operating the

restaurants as general partner. In addition to the general partnership interest the Company also purchases limited partnership units ranging from 12% to 42% of the total units outstanding. As a result of these controlling interests, the Company consolidates the operations of these limited partnerships with those of

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

the Company despite the fact the Company does not own in excess of 50% of the equity interests. All intercompany transactions are eliminated in consolidation. The minority interests in the earnings of these limited partnerships are removed from net income and are not included in the calculation of earnings per share.

Income Taxes

Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes requires, among other things, recognition of future tax benefits measured at enacted rates attributable to deductible temporary differences between financial statement and income tax bases of assets and liabilities and to tax net operating loss and tip credit carryforwards to the extent that realization of said benefits is more likely than not. For discussion regarding the Company's carryforwards refer to Note 8 to the consolidated financial statements for fiscal 2006.

Other Matters

Impact of Inflation

The Company does not believe that inflation has had any material effect during the past three fiscal years. To the extent allowed by competition, the Company recovers increased costs by increasing prices.

43

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company does not ordinarily hold market risk sensitive instruments for trading purposes. During the fourth quarter of fiscal 2006, the Company sold its one equity security, realizing a gain of \$78,000. As of September 30, 2006, the Company held no equity securities.

Interest Rate Risk

At September 30, 2006, the Company has two debt arrangements which have a variable interest rate. For one of these instruments, a mortgage note, the Company has entered into an interest rate swap agreement to hedge the interest rate risk. The mortgage note has an outstanding principal balance at September 30, 2006 of \$788,000. The other instrument, the secured \$2,000,000 line of credit, has a variable interest rate, which is at prime. During the second quarter of fiscal 2006, the Company paid the unsecured promissory note which had an original principal balance of \$100,000 and a variable interest rate which was at prime, in full, using funds from its secured line of credit. Increases in interest rates may have a material affect upon results of operations, depending upon the outstanding principal balance on the line of credit from time to time.

Subsequent to the end of fiscal 2006, the Company re-financed the mortgage note for which the Company entered into an interest rate swap agreement to hedge the interest rate risk, with a new mortgage, in the original principal amount of \$1,000,000, with a fixed interest rate of 7.25% per annum. The pre-payment of the mortgage note, which otherwise matured in August, 2008,

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

incurred a prepayment penalty of \$17,000.

At September 30, 2006, the Company's cash resources earn interest at variable rates. Accordingly, the Company's return on these funds is affected by fluctuations in interest rates. Any decrease in interest rates will have a negative effect on the Company's earnings.

There is no assurance that interest rates will increase or decrease over the next fiscal year.

Item 8. Financial Statements and Supplementary Data.

Financial statements of the Company at September 30, 2006 and October 1, 2005, which include each of the three years in the period ended September 30, 2006 and the independent certified public accountants' report thereon, are included herein.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

44

Our Chief Executive Officer and Chief Financial Officer have, with the participation of management evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15(e) or 15d-15(e)) as of September 30, 2006. It is the conclusion of our Chief Executive Officer and Chief Financial Officer that such disclosure controls and procedures operate such that important information flows to appropriate collection and disclosure points in a timely manner and are effective in ensuring that material information is accumulated and communicated to management and made known to the Chief Executive Officer and Chief Financial Officer particularly during the period in which this report was prepared, as appropriate, to allow timely decisions regarding timely disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, is subject to limitations, including the exercise of our judgment in evaluating the same. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors.

(b) Change in Internal Control over Financial Reporting

During fiscal 2006, the Company continued to assess the effectiveness of its "internal controls over financial reporting" on an account by account basis as a part of our on-going accounting and financial reporting review process. The assessments were made by management, under the supervision of our Chief Financial Officer. During fiscal 2006, the Company made no changes in its internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Notwithstanding, the effectiveness of our system of internal control over financial reporting is subject to limitations, including the exercise of our judgment in evaluating the same. As a result, there can be no assurance that our internal control over financial reporting will prevent all errors.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement for its 2007 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission pursuant to regulation 14A under the Securities and Exchange Act of 1934, as amended (the 2006 Proxy Statement), is incorporated herein by reference. See also "Executive Officers of the Registrant" included in Part I hereof.

Item 11. Executive Compensation.

The information set forth in the 2007 Proxy Statement under the caption "Executive Compensation" is incorporated by reference.

45

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2007 Proxy Statement is incorporated by reference.

Item 13. Certain Relationships and Related Transactions.

The information set forth under the caption "Election of Directors - Certain Relationships and Related Transactions" in the 2007 Proxy Statement is incorporated by reference.

Item 14. Principal Accountant Fees and Services.

The information set forth in the 2007 Proxy Statement under the caption "Audit Fee" and "All Other Fees" is incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) 1. Financial Statements

All the financial statements, financial statement schedule and supplementary data listed in the accompanying Index to Exhibits are filed as part of this Annual Report.

2. Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as part of this Annual Report.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of fiscal year 2006 or subsequent to year end.

46

Index to Exhibits Item (14) (a) (2)

Description

(2) Plan of Reorganization, Amended Disclosure Statement, Amended Plan of reorganization, Modification of Amended Plan of Reorganization, Second Modification of Amended Plan of Reorganization, Order Confirming Plan of Reorganization, (Item 7 (c) of Quarterly Report on Form 8-K filed May 5, 1987 is incorporated herein by reference).

(3) Restated Articles of Incorporation (Part IV, Item 4 (a) (2) of Annual Report on Form 10-K filed on December 29, 1982 is incorporated herein by reference).

(10) (a) (1) Employment Agreement with Joseph G. Flanigan (Exhibit A of the Proxy Statement dated January 27, 1988 is incorporated herein by reference).

(10) (a) (2) Form of Employment Agreement between Joseph G. Flanigan and the Company (as ratified and amended by the stockholders at the 1988 annual meeting is incorporated herein by reference).

(10) (c) Consent Agreement regarding the Company's Trademark Litigation (Part 7(c)(19) of the Form 8-K dated April 10, 1985 is incorporated herein by reference).

(10) (d) King of Prussia (#850) Partnership Agreement (Part 7 (c) (19) of the Form 8-K dated April 10, 1985 is incorporated herein by reference).

(10) (o) Management Agreement for Atlanta, Georgia, (#600) (Item 14(a)(10)(o) of the Form 10-K dated October 3, 1992 is incorporated herein by reference).

(10) (p) Settlement Agreement with Former Vice Chairman of the Board of Directors (re #5) (Item 14 (a)(10)(p) of the Form 10-K dated October 3, 1992 is incorporated herein by reference).

(10) (q) Hardware Purchase Agreement and Software License Agreement for restaurant point of sale system. (Item 14(a)(10)(g) of Form 10-KSB dated October 2, 1993 is incorporated herein by reference).

(10) (a) (3) Key Employee Incentive Stock Option Plan (Exhibit A of the Proxy Statement dated January 26, 1994 is incorporated herein by reference).

(10) (r) Limited Partnership Agreement of CIC Investors #13, Ltd., between Flanigan's Enterprises, Inc., as General Partner and fifty percent owner of the limited partnership, and Hotel Properties, LTD. (Item 14 (a)(10)(r) of the Form 10-KSB dated September 30, 1995 is incorporated herein by reference).

(10) (s) Form of Franchise Agreement between Flanigan's Enterprises, Inc. and Franchisees. (Item 14 (a)(10)(s) of the Form 10-KSB dated September 30, 1995 is incorporated herein by reference).

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

47

(10)(t) Licensing Agreement between Flanigan's Enterprises, Inc. and James B. Flanigan, dated November 4, 1996, for non-exclusive use of the servicemark "Flanigan's" in the Commonwealth of Pennsylvania. (Item 14 (a)(10)(t) of the Form 10-KSB dated September 28, 1996 is incorporated herein by reference).

(10)(u) Limited Partnership Agreement of CIC Investors #15 Ltd., dated March 28, 1997, between B.D. 15 Corp. as General Partner and numerous limited partners, including Flanigan's Enterprises, Inc. as a limited partner owning twenty five percent of the limited partnership (Item 14 (a)(10)(u) of the Form 10-KSB dated September 27, 1997 is incorporated herein by reference).

(10)(v) Limited Partnership Agreement of CIC Investors #60 Ltd., dated July 8, 1997, between Flanigan's Enterprises, Inc., as General Partner and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning forty percent of the limited partnership (Item 14 (a)(10)(v) of Form 10-KSB dated September 27, 1997 is incorporated herein by reference).

(10)(w) Stipulated Agreed Order of Dismissal upon Mediation with former franchisee (Item 14 (a)(10)(w) of Form 10-KSB dated September 27, 1997 is incorporated herein by reference).

(10)(x) Limited Partnership Agreement of CIC Investors #70, Ltd. dated February 1999 between Flanigan's Enterprises, Inc. as General Partner and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning forty percent of the limited partnership. (Item 14 (a)(10)(x) of Form 10-KSB dated October 2, 1999 is incorporated herein by reference)

(10)(y) Limited Partnership Agreement of CIC Investors #80, Ltd., dated May 2001, between Flanigan's Enterprises, Inc. as General Partner and numerous limited partners, including Flanigan's Enterprises, Inc., as limited partner owning twenty five percent of the limited partnership. (Item 14(a)(10)(y) of Form 1--KSB dated September 29, 2001 is incorporated herein by reference.)

(10)(z) Limited Partnership Agreement of CIC Investors #95, Ltd., dated July 2001, between Flanigan's Enterprises, Inc., as General Partner and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning twenty eight percent of the limited partnership.(Item 14 (a)(10)(z) of Form 10-KSB dated September 29, 2001 is incorporated herein by reference.)

(10)(aa) Limited Partnership Agreement of CIC Investors #75, Ltd., dated June 17, 2003, between Flanigan's Enterprises, Inc., as General Partner, and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning twelve percent of the limited partnership. (Item 14(a)(10)(aa) of Form 10-K dated October 2, 2004 is incorporated herein by reference.)

(10)(bb) Limited Partnership Agreement of CIC Investors #65, Ltd., dated June 24, 2004, between Flanigan's Enterprises, Inc., as General Partner, and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning twenty six percent of the limited partnership. (Item 14(a)(10)(bb) of Form 10-K dated October 1, 2005 is incorporated herein by reference.)

(10)(cc) Amended and Restated Limited Partnership Certificate and Agreement of CIC Investors #13, Ltd., dated March 1, 2006, between Flanigan's Enterprises, Inc., as General Partner, Flanigan's Management services, Inc. and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning thirty nine percent of the limited partnership.

48

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

/s/ BARBARA J. KRONK Director Date: 12/29/06

Barbara J. Kronk

/s/ AUGIE BUCCI Chief Operating Officer Date: 12/29/06
----- and Director
Augie Bucci

/s/ MICHAEL B. FLANIGAN Director Date: 12/29/06

Michael B. Flanigan

/s/ PATRICK J. FLANIGAN Director Date: 12/29/06

Patrick J. Flanigan

/s/ CHRISTOPHER O'NEIL Director Date: 12/29/06

Christopher O'Neil

=====

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006, OCTOBER 1, 2005, AND OCTOBER 2, 2004

=====

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

PAGE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

F-1

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

CONSOLIDATED FINANCIAL STATEMENTS

Balance Sheets	F-2
Statements of Income	F-3
Statements of Stockholders' Equity	F-4
Statements of Cash Flows	F-5
Notes to Financial Statements	F-6 - F-33

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Flanigan's Enterprises, Inc.
Fort Lauderdale, Florida

We have audited the accompanying consolidated balance sheets of Flanigan's Enterprises, Inc. and Subsidiaries as of September 30, 2006 and October 1, 2005 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flanigan's Enterprises, Inc. and Subsidiaries as of September 30, 2006 and October 1, 2005, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States.

RACHLIN COHEN & HOLTZ LLP

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Fort Lauderdale, Florida
December 21, 2006

F-1

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2006 AND OCTOBER 1, 2005

ASSETS -----	2006 ----	2005 ----
Current Assets:		
Cash and cash equivalents	\$ 1,698,000	\$ 2,674,000
Marketable securities	--	353,000
Notes and mortgages receivable, current maturities	12,000	16,000
Due from franchisees	569,000	119,000
Other receivables	821,000	189,000
Inventories	2,215,000	1,990,000
Prepaid expenses	813,000	721,000
Deferred tax assets	187,000	29,000
	-----	-----
Total current assets	6,315,000	6,091,000
	-----	-----
Property and Equipment, Net	18,939,000	13,127,000
	-----	-----
Investment in Limited Partnership	153,000	122,000
	-----	-----
Other Assets:		
Liquor licenses, net	347,000	347,000
Notes and mortgages receivable	103,000	116,000
Deferred tax assets	397,000	435,000
Other	1,144,000	861,000
	-----	-----
Total other assets	1,991,000	1,759,000
	-----	-----
Total assets	\$ 27,398,000	\$ 21,099,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 4,096,000	\$ 2,916,000
Income taxes payable	264,000	295,000
Due to franchisees	268,000	493,000
Current portion of long-term debt	223,000	174,000
Deferred revenues	54,000	62,000
Deferred rent	14,000	14,000
	-----	-----
Total current liabilities	4,919,000	3,954,000
	-----	-----

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Long-Term Debt, Net of Current Maturities	4,196,000	1,383,000
Line of Credit	762,000	--
Deferred Rent, Net of Current Portion	223,000	241,000
Minority Interest in Equity of Consolidated Limited Partnerships	6,506,000	5,248,000
Commitments, Contingencies and Subsequent Events		
Stockholders' Equity:		
Common stock, \$.10 par value; 5,000,000 shares authorized; 4,197,642 shares issued	420,000	420,000
Capital in excess of par value	6,203,000	6,148,000
Retained earnings	10,064,000	9,472,000
Accumulated other comprehensive income	--	50,000
Treasury stock, at cost, 2,313,277 and 2,323,047 shares	(5,895,000)	(5,817,000)
Total stockholders' equity	10,792,000	10,273,000
Total liabilities and stockholders' equity	\$ 27,398,000	\$ 21,099,000

See notes to consolidated financial statements.

F-2

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2006, OCTOBER 1, 2005 AND OCTOBER 2, 2004

	2006	2005	
	----	----	
Revenues:			
Restaurant food sales	\$ 32,847,000	\$ 29,219,000	\$ 26
Restaurant beverage sales	7,610,000	6,610,000	7
Package store sales	13,046,000	11,810,000	10
Franchise-related revenues	1,114,000	984,000	
Owner's fee	224,000	261,000	
Other operating income	173,000	148,000	
	-----	-----	-----
	55,014,000	49,032,000	45
Costs and Expenses:			
Cost of merchandise sold:			
Restaurants and lounges	13,952,000	12,502,000	12
Package goods	9,312,000	8,436,000	7
Payroll and related costs	16,062,000	13,636,000	12
Occupancy costs	3,189,000	2,853,000	2
Selling, general and administrative expenses	10,800,000	9,439,000	9
	-----	-----	-----

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

	53,315,000	46,866,000	44
	-----	-----	-----
Income from Operations	1,699,000	2,166,000	1
	-----	-----	-----
Other Income (Expense):			
Interest expense	(206,000)	(116,000)	
Interest and other income	183,000	106,000	
Limited partnership income	31,000	18,000	
Loss on abandonment of property and equipment	(61,000)	(121,000)	
Insurance recovery, net of casualty loss	666,000	--	
	-----	-----	-----
	613,000	(113,000)	
	-----	-----	-----
Income Before Provision for Income Taxes and Minority Interest in Earnings of Consolidated Limited Partnerships	2,312,000	2,053,000	
	-----	-----	-----
Provision for Income Taxes:			
Current	870,000	525,000	
Deferred	(120,000)	18,000	
	-----	-----	-----
	750,000	543,000	
	-----	-----	-----
Minority Interest in Earnings of Consolidated Limited Partnerships	(312,000)	(403,000)	
	-----	-----	-----
Net Income	\$ 1,250,000	\$ 1,107,000	\$
	=====	=====	=====
Net Income Per Common Share:			
Basic	\$ 0.66	\$ 0.58	\$
	=====	=====	=====
Diluted	\$ 0.65	\$ 0.58	\$
	=====	=====	=====
Weighted Average Shares and Equivalent Shares Outstanding:			
Basic	1,884,000	1,895,000	1
	-----	-----	-----
Diluted	1,909,000	1,923,000	1
	=====	=====	=====

See notes to consolidated financial statements.

F-3

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 2006 OCTOBER 1, 2005 AND OCTOBER 2, 2004

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Sh
	Shares	Amount				
Balance, September 27, 2003	4,197,642	\$ 420,000	\$6,103,000	\$ 9,115,000	\$ 26,000	2,2
Year Ended October 2, 2004:						
Comprehensive income:						
Net income	--	--	--	440,000	--	
Net unrealized loss on securities	--	--	--	--	(1,000)	
	--	--	--	440,000	(1,000)	
Purchase of treasury stock	--	--	--	--	--	
Exchange of shares - exercise of stock options	--	--	44,000	--	--	(
Dividends paid (\$0.30 per share)	--	--	--	(581,000)	--	
Balance, October 2, 2004	4,197,642	420,000	6,147,000	8,974,000	25,000	2,2
Year Ended October 1, 2005:						
Comprehensive income:						
Net income	--	--	--	1,107,000	--	
Net unrealized gain on securities	--	--	--	--	25,000	
	--	--	--	1,107,000	25,000	
Purchase of treasury stock	--	--	--	--	--	
Exchange of shares - exercise of stock options	--	--	1,000	--	--	
Dividends paid (\$0.32 per share)	--	--	--	(609,000)	--	
Balance, October 1, 2005	4,197,642	420,000	6,148,000	9,472,000	50,000	2,3
Year ended September 30, 2006						
Comprehensive income:						
Net income	--	--	--	1,250,000	--	
Net unrealized gain on securities	--	--	--	--	(50,000)	
	--	--	--	1,250,000	(50,000)	
Purchase of treasury stock	--	--	--	--	--	
Exchange of shares - exercise of stock options	--	--	55,000	--	--	(
Dividends paid (\$0.35 per share)	--	--	--	(658,000)	--	
Balance, September 30, 2006	4,197,642	\$ 420,000	\$6,203,000	\$10,064,000	\$ --	2,3

See notes to consolidated financial statements.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

F-4

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2006, OCTOBER 1, 2005 AND OCTOBER 2, 2004

	2006 ----	2005 ----
Cash Flows from Operating Activities:		
Net income	\$ 1,250,000	\$ 1,100,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,817,000	1,540,000
Loss on abandonment of property and equipment	61,000	120,000
Insurance recovery, net of casualty loss	(666,000)	
Gain on sale of marketable securities	(78,000)	
Deferred income taxes	(120,000)	1,000
Deferred rent	(18,000)	
Minority interests in earning of consolidated limited partnerships	312,000	400,000
Income from unconsolidated limited partnership	(31,000)	(100,000)
Recognition of deferred revenues	(8,000)	(100,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Due from franchisees	(450,000)	(110,000)
Other receivables	(221,000)	80,000
Inventories	(225,000)	(340,000)
Prepaid expenses	(92,000)	(150,000)
Refundable deposit, major supplier	--	
Other assets	(375,000)	(80,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,180,000	80,000
Income taxes payable	(31,000)	300,000
Due to franchisees	(225,000)	(270,000)
	-----	-----
Net cash provided by operating activities	2,080,000	2,660,000
	-----	-----
Cash Flows from Investing Activities:		
Collections on notes and mortgages receivable	17,000	200,000
Purchase of property and equipment	(3,710,000)	(2,090,000)
Acquisition of subsidiary	(601,000)	
Distributions from unconsolidated limited partnership	--	200,000
Proceeds from redemption of certificate of deposit	--	
Investment in marketable securities	--	
Proceeds from insurance settlement	700,000	
	-----	-----
Net cash used in investing activities	(3,594,000)	(2,050,000)
	-----	-----
Cash Flows from Financing Activities:		
Payments of long-term debt	(489,000)	(300,000)
Proceeds from long-term debt	--	250,000
Proceeds from line of credit	762,000	
Dividends paid	(658,000)	(600,000)
Purchase of treasury stock	(139,000)	(350,000)

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Distributions to limited partnerships' minority partners	(1,054,000)	(1,21
Proceeds from limited partnership interests	2,000,000*	1,36
Proceeds from exercise of stock options	116,000	
	-----	-----
Net cash provided by (used in) financing activities	538,000	(87
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(976,000)	(26
Cash and Cash Equivalents, Beginning	2,674,000	2,93
	-----	-----
Cash and Cash Equivalents, Ending	\$ 1,698,000	\$ 2,67
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 206,000	\$ 11
	=====	=====
Income taxes	\$ 881,000	\$ 22
	=====	=====
Non-Cash Financing and Investing Activities:		
Purchase of vehicles in exchange for debt	\$ 70,000	\$ 30
	=====	=====
Purchase of Josar Investments, LLC in exchange for debt	\$ 3,280,000	\$
	=====	=====
Sale of marketable securities not settled by September 30, 2006	\$ 381,000	\$
	=====	=====

* exclusive of the Company's investment in the limited partnership owning the restaurant in Pinecrest, Florida of \$1,300,000.

** exclusive of the Company's investment in the limited partnership owning the restaurant in Wellington, Florida of \$485,000.

*** exclusive of the Company's investment in the limited partnership owning the restaurant in Stuart, Florida of \$175,000.

See notes to consolidated financial statements.

F-5

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006, OCTOBER 1, 2005 AND OCTOBER 2, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Capitalization

Incorporated in 1959, Flanigan's Enterprises, Inc. ("Flanigan's" or the "Company") operates in South Florida as a chain of full-service restaurants and package liquor stores. Restaurant food and beverage sales make up the majority of total revenue. At September 30, 2006, the Company owned and operated two full-service restaurants, five package liquor stores and four combination full-service restaurants and package liquor stores in South Florida. In addition, the

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Company operates one full-service restaurant in South Florida pursuant to a management agreement with an unrelated third party and owns one club in Atlanta, Georgia, which is operated pursuant to a management agreement with an unrelated third party. The Company holds interests in seven limited partnerships as general partner. The Company's restaurants are operated under the "Flanigan's Seafood Bar and Grill" servicemark while the Company's package stores are operated under the "Big Daddy's Liquors" servicemark.

The Company's Articles of Incorporation, as amended, authorize the Company to issue and have outstanding at any one time 5,000,000 shares of common stock at a par value of \$.10.

The Company operates under a 52-53 week year ending the Saturday closest to September 30. Fiscal years 2006 and 2005 are each comprised of a 52-week period, while fiscal year 2004 is comprised of a 53-week period.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, and the accounts of the seven limited partnerships in which the Company acts as general partner and has controlling interests. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The consolidated financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the U.S. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the estimated useful lives of tangible assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated 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 undertake in the future, they may ultimately differ from actual results.

F-6

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Investments

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities" (SFAS 115), securities are classified into three categories: held-to-maturity, available-for-sale, and trading.

The Company's marketable securities are classified as available-for-sale, which means they may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value.

Unrealized holding gains and losses are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Inventories

Inventories, which consist primarily of package liquor products, are stated at the lower of average cost or market.

Liquor Licenses

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), liquor licenses are no longer being amortized, but are tested annually for impairment (see Note 7).

Property and Equipment

Property and equipment are stated at cost. Expenditures for major improvements are capitalized. Depreciation commences when the assets are placed in service. Maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets.

The estimated useful lives range from three to five years for vehicles, and three to seven years for furniture and equipment. Leasehold interests are amortized over the term of the lease up to a maximum of 15 years. Leasehold improvements are currently being amortized over the life of the lease up to a maximum of 20 years. The building and building improvements of the corporate offices in Fort Lauderdale, Florida and the combination restaurant and package liquor store in Hallandale, Florida owned by the Company are being depreciated over forty years.

F-7

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Investment in Limited Partnerships

The Company uses the consolidation method of accounting when the Company has a controlling interest in other companies and limited partnerships. The Company uses the equity method of accounting when the Company has an interest between twenty to fifty percent in other companies and limited partnerships, but does not exercise control. Under the equity method, original investments are recorded at cost and are adjusted for the Company's share of undistributed earnings or losses. All significant intercompany profits are eliminated.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents, investments, other receivables and notes and mortgages receivable.

Cash and Cash Equivalents

From time to time during the year, the Company had deposits in financial institutions in excess of the federally insured limits. At September 30, 2006, the Company had deposits in excess of federally insured limits of approximately \$1,611,000. The Company maintains its cash with high quality financial institutions, which the Company believes limits these risks.

Notes and Mortgages Receivable

Notes and mortgages receivable arise primarily from the sale of operating assets, including liquor licenses. Generally, those assets serve as collateral for the receivable. Management believes that the collateral, coupled with the credit standing of the purchasers, limits these risks.

Major Supplier

Throughout fiscal years 2006, 2005 and 2004, the Company purchased substantially all of its food products from its major supplier pursuant to a master distribution agreement which entitled the Company to receive certain purchase discounts, rebates and advertising allowances. Management believes that several other alternative vendors are available, if necessary.

Revenue Recognition

The Company records revenues from normal recurring sales upon the sale of food and beverages and the sale of package liquor products. Continuing royalties, which are a percentage of net sales of franchised stores, are accrued as income when earned.

F-8

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pre-opening Costs

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Pre-opening costs are those typically associated with the opening of a new restaurant and generally include payroll costs associated with the "new restaurant openers" (a team of select employees who travel to new restaurants to ensure that the Company's high standards for quality are met), rent and promotional costs. Pre-opening costs are expensed as incurred. Pre-opening costs incurred for the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004 were approximately \$343,000, \$416,000 and \$315,000, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs incurred for the years ended September 30, 2006, October 1, 2005 and October 2, 2004 were approximately \$464,000, \$375,000 and \$319,000 respectively.

Fair Value of Financial Instruments

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair value. These instruments include cash and cash equivalents, investments, notes and mortgages receivable, other receivables, accounts payables and accrued expenses. Fair values were assumed to approximate carrying values for those financial instruments, which are short-term in nature or are receivable or payable on demand.

The fair value of long-term debt is estimated based on current rates offered to the Company for debt of comparable maturities and similar collateral requirements.

Derivative Financial Instruments and Hedging Activities

The Company holds a derivative financial instrument for the purpose of hedging the risk of certain identifiable and anticipated transactions. In general, the type of risk hedged is that relating to the variability of future earnings and cash flows caused by movements in interest rates. In hedging the transaction, the Company, in the normal course of business, holds an interest rate swap, which hedges the fair value of variable rate debt and cash flows of variable-rate financial assets.

Derivatives are held only for the purpose of hedging such risks, not for speculation. Generally, the Company entered into the hedging relationship such that changes in the fair values or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the value of the derivative. At September 30, 2006, a hedging relationship existed for the mortgage obligation described in Note 9. Subsequent to the end of fiscal year 2006, the Company re-financed this mortgage obligation and terminated this hedging relationship. See Note 17.

F-9

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company accounts for its income taxes using SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of deferred tax liabilities and assets for expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Comprehensive Income

The Company reports comprehensive income in accordance with the Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("SFAS 130"). This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income generally represents all changes in stockholders' equity during the year except those resulting from investments by, or distributions to, stockholders.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R) to account for stock-based employee compensation. Among other items, SFAS 123R eliminates the use of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and the intrinsic value method of accounting and requires companies to recognize the cost of employee services received in exchange for stock-based awards based on the grant date fair value of those awards in their financial statements. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. For stock-based awards granted or modified subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, will be recognized in the consolidated financial statements over the vesting period. This application requires the Company to record compensation expense for all awards granted to employees and directors after the adoption date and for the unvested portion of awards that are outstanding at the date of adoption. The Company had no unvested stock options as of January 1, 2006 and granted no stock options in the nine months ended September 30, 2006, so there is no impact of SFAS No. 123R on the Company's consolidated financial statements for the year ended September 30, 2006. In accordance with the modified prospective method, the Company's consolidated financial statements for prior periods have not been restated to reflect and do not include the impact of SFAS No. 123R.

Had compensation cost for the options been determined based on the fair value at the grant date during fiscal years 2005 and 2004, consistent with SFAS 123, the Company's net income would have been as follows:

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (Continued)

	2005 ----	2004 ----
Net income, as reported	\$1,107,000	\$440,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(88,000)	(25,000)
	-----	-----
Pro forma net income	\$1,019,000 =====	\$415,000 =====

Earnings Per Share:

Basic:

As reported	\$ 0.58	\$ 0.23
Pro forma	\$ 0.54	\$ 0.22

Diluted:

As reported	\$ 0.58	\$ 0.23
Pro forma	\$ 0.53	\$ 0.21

The Company used the Black-Scholes option-pricing model to determine the fair value of grants made in 2004. For purposes of disclosure, the estimated fair value of the options were being amortized to expense over the options vesting period of one year. The following assumptions were applied in determining the pro forma compensation cost:

	2004 ----
Risk Free Interest Rate	3.1%
Expected Dividend Yield	5.0%
Expected Option Life	5 years
Expected Stock Price Volatility	24%

Long-Lived Assets

The Company continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated life of its intangible and other long-lived assets or whether the remaining balance of its intangible and other long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that intangible or other long-lived assets should be evaluated for possible impairment, the Company will determine the fair value of the asset by making an estimate of expected future cash flows over the remaining lives of the respective assets and compare that fair value with the carrying value of the assets in measuring their recoverability. In determining the expected future cash flows, the assets will be grouped at the lowest level for which there are cash flows, at the individual store level.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the presentation of the 2006 consolidated financial statements.

F-11

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related disclosures using both the rollover and the iron curtain approach. SAB 108 applies to annual financial statements for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB 108 to have a material impact on its financial condition or results of operation.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" which provides guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the company's mark-to-model value. SFAS 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of SFAS 157 at the beginning of 2008 to have a material impact

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of Interpretation No. 48 to have a material impact.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

On April 13, 2006, the FASB issued FSP No. FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)," which requires the use of a "by design" approach for determining whether an interest is variable when applying FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." This approach includes evaluating whether an interest is variable based on a thorough understanding of the design of the potential variable interest entity ("VIE"), including the nature of the risks that the potential VIE was designed to create and pass along to interest holders in the entity. The guidance in this FSP is effective for reporting periods beginning after June 15, 2006. The Company adopted the guidance presented in this FSP in the fourth quarter of 2006 on a prospective basis. The implementation did not have an effect on the results of operations or financial position.

F-12

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

On February 3, 2006, the FASB issued FSP No. FAS 123(R)-4 "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event." This FSP amends SFAS No. 123(R), addressing cash settlement features that can be exercised only upon the occurrence of a contingent event that is outside the employee's control. These instruments are not required to be classified as a liability until it becomes probable that the event will occur. The Company adopted this FSP in the second quarter of 2006. The implementation did not have an effect on the results of operations or financial position.

In November 2005, the FASB issued final FASB Staff Position ("FSP") FAS No. 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." The FSP provides an alternative method of calculating excess tax benefits from the method defined in SFAS No. 123R for share-based payments. A one-time election to adopt the transition method in this FSP is available to those entities adopting SFAS No. 123R using either the modified retrospective or modified prospective method. Up to one year from the initial adoption of SFAS No. 123R or effective date of the FSP is provided to make this one-time election. However, until an entity makes its election, it must follow the guidance in SFAS No. 123R. The FSP is effective upon initial adoption of SFAS No. 123R and became effective for the Company in the second quarter of 2006. The Company is currently evaluating the allowable methods for calculating excess tax benefits and have not yet determined whether it will make a one-time election to adopt the transition method described in this FSP, nor the expected impact on its position or results of operation.

In May 2005, the FASB issued SFAS No. 154, "Accounting for Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Statement No. 3". SFAS 154 applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance contained in Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition, results of operations, or liquidity.

F-13

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In March 2005, the Financial Accounting Standards Board issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143." This Interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this standard did not have a material impact on the financial condition, results of operations, or liquidity of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Statement No. 123(R) will require the fair value of all stock based awards issued to employees to be recorded as an expense over the related vesting period. The statement also requires the recognition of compensation expense for the fair value of any unvested stock based awards outstanding at the date of adoption. This statement became effective January 1, 2006. The adoption of this standard did not have a material impact on the financial condition or results of operations of the Company.

NOTE 2. ACQUISITION

On July 26, 2006, the Company acquired Josar Investments, LLC (Josar) for \$3,876,000 of total consideration. The assets acquired, liabilities

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

assumed and the results of operations have been included in the Company's consolidated financial statements as of that date. The acquisition of Josar included the purchase by the Company of 100% of the membership interests of Josar, which became a wholly owned subsidiary of the Company. The Company purchased Josar for the purpose of acquiring the land and building owned by Josar and leased by the Company for a combination restaurant and package liquor store operation. The purchase price was fully attributed to the fair value of the land and building.

Contemporaneous to closing on the purchase of Josar, the Company entered into a mortgage loan on the property acquired together with property owned by the Company adjacent thereto for \$3,280,000. Proceeds from the mortgage loan were used to satisfy a portion of the purchase price, to retire the previous mortgage loan on the Company's adjacent property for \$266,000 and to pay certain fees associated with the transaction.

F-14

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 3. INVESTMENTS

Cost and fair value of investments available for sale are as follows:

	2005

Cost - equity instruments	\$303,000
Gross unrealized gains	50,000

Total	\$353,000
	=====

All funds held at October 1, 2005 were invested in marketable securities of one entity. This investment was sold during the fiscal year ended September 30, 2006, resulting in a gain on sale of approximately \$78,000.

NOTE 4. NOTES AND MORTGAGES RECEIVABLE

Receivables consist of the following at September 30, 2006 and October 1, 2005:

	2006	2005
	----	----
Notes and mortgages receivable from unrelated parties, bearing interest at rates ranging from 10.5% to 15% and due in varying installments through 2013	\$ 45,000	\$ 1
Mortgage receivable from related party, bearing interest at 14% and due in installments through 2011	70,000	1
	-----	-----
	115,000	1

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Current portion	12,000	-----	--
		\$103,000	\$1
		=====	==

The majority of the notes and mortgages receivable represent amounts owed to the Company for store operations which were sold. Unless a significant amount of cash is received on the sale, a pro rata portion of the gain is deferred and recognized only as payments on the notes and mortgages are received by the Company. Any losses on sales of stores are recognized currently. Approximately \$8,000 of deferred gain was recognized on collections of such notes receivable during each of the fiscal years ended September 30, 2006 and October 1, 2005 and \$6,000 was recognized during the fiscal year ended October 2, 2004.

Future scheduled payments on the receivables at September 30, 2006 consist of the following:

2007	\$12,000
2008	14,000
2009	16,000
2010	19,000
2011	9,000
Thereafter	45,000

	\$115,000
	=====

F-15

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 5. PROPERTY AND EQUIPMENT

	2006	2005
	----	----
Furniture and equipment	\$ 8,057,000	\$ 7,367,000
Leasehold interests and improvements	15,716,000	13,309,000
Land and land improvements	4,203,000	1,024,000
Building and improvements	2,121,000	1,168,000
Vehicles	665,000	585,000
Construction in progress	--	260,000
	-----	-----
	30,762,000	23,713,000
Less accumulated depreciation and amortization	11,823,000	10,586,000
	-----	-----
	\$18,939,000	\$13,127,000
	=====	=====

NOTE 6. INVESTMENTS IN LIMITED PARTNERSHIPS

The Company has determined that all but one limited partnership

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

discussed below should be consolidated by virtue of control as evidenced by general partnership interests held by the Company. As a result, the accompanying consolidated financial statements reflect the limited partnerships in which the Company has a general partnership interest on a consolidated basis. The remaining limited partnership in which the Company does not have control has been accounted for utilizing the equity method.

Beginning with the limited partnership which owns the restaurant in Surfside, Florida and for all limited partnerships formed subsequent thereto for the purpose of owning and operating a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark, a standard financial arrangement has been used in each limited partnership agreement. Under this financial arrangement, until the limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant, the limited partnership receives an aggregate sum equal to 25% of the initial investment of all limited partners first each year, with any additional net profit divided equally between the Company, as manager of the restaurant, and the limited partnership. Once the limited partnership has received an aggregate sum equal to the initial investment of all limited partners from the net profit from the operation of the restaurant, the net profit is divided equally between the Company, as manager of the restaurant, and the limited partnership. As of September 30, 2006, the limited partnerships which own the restaurants in Kendall, Florida, West Miami, Florida and Surfside, Florida have each received an aggregate sum equal to the initial investment of their respective limited partners from the net profit from the operation of their respective restaurants and the Company receives one-half (1/2) of the net profit as manager of each restaurant. The Company plans to continue forming limited partnerships to raise funds to own and operate restaurants under the "Flanigan's Seafood Bar and Grill" servicemark using the same financial arrangement.

F-16

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

Each limited partnership agreement, excluding only the limited partnership agreement for the franchised restaurant in Fort Lauderdale, Florida which is governed by a franchise agreement, gives the limited partnership the right to use the "Flanigan's Seafood Bar and Grill" servicemark for a fee equal to 3% of the gross sales from the operation of the restaurant, while the Company acts as general partner only. This 3% fee is "earned" when sales are made by the limited partnerships and is paid weekly, in arrears. The Company manages the books and records of all limited partnerships, including collecting funds generated by the same. As a result, the 3% fee is paid to the Company by book entry on a weekly basis and is never delinquent.

Pinecrest, Florida

During the fourth quarter of fiscal year 2006, the limited

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

partnership completed the structural repairs and its interior build-out of the business premises in Pinecrest, Florida for the operation of a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. During the third quarter of fiscal year 2006, the limited partnership completed its private offering, raising the sum of \$3,300,000 to reimburse the Company for advances of \$1,506,000 made to the limited partnership in excess of its investment in the same, to complete the renovations to the business premises and to provide working capital. The Company continues to act as general partner and is also the owner of a thirty nine percent limited partnership interest, as are other related parties, including, but not limited to officers and directors of the Company and their families. This restaurant opened for business on August 14, 2006. This entity is consolidated in the accompanying financial statements.

Surfside, Florida

The Company has an investment in a limited partnership, which purchased the assets of a restaurant in Surfside, Florida and renovated it for operation under the "Flanigan's Seafood Bar and Grill" servicemark. The Company acts as general partner of the limited partnership and is also a forty-two percent limited partner. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. As of the second quarter of fiscal year 2006, the limited partners had received distributions from the limited partnership equal to their original investment and pursuant to the limited partnership agreement, the Company thereafter receives fifty percent of the net profit from the operation of the restaurant as a management fee. This entity is consolidated in the accompanying financial statements.

Kendall, Florida

The Company owns an investment in a limited partnership, which constructed and now operates a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark in Kendall, Florida. The Company is the general partner and has a forty percent limited partnership interest. As of April 1, 2003, the limited partners had received distributions from the limited partnership equal to their original investment and pursuant to the limited partnership agreement, the Company thereafter receives fifty percent of the net profit from the operation of the restaurant as a management fee. This entity is consolidated in the accompanying financial statements.

F-17

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

West Miami, Florida

The Company owns an investment in a limited partnership, which purchased, renovated and now operates a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark in West Miami,

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Florida. The Company is the general partner and has a twenty-five percent limited partnership interest. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. As of December 31, 2005, the limited partners had received distributions from the limited partnership equal to their original investment and pursuant to the limited partnership agreement, the Company thereafter receives fifty percent of the net profit from the operation of the restaurant as a management fee. This entity is consolidated in the accompanying financial statements.

Weston, Florida

The Company owns an investment in a limited partnership, which acquired, renovated and now operates a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark in Weston, Florida. The Company is the general partner and has a twenty-eight percent limited partnership interest. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. This entity is consolidated in the accompanying financial statements.

Stuart, Florida

The Company owns an investment in a limited partnership, which acquired, renovated and now operates a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark in Stuart, Florida. The Company is the general partner and has a twelve percent limited partnership interest. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. This entity is consolidated in the accompanying financial statements.

Wellington, Florida

The Company owns an investment in a limited partnership, which acquired, renovated and now operates a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark in Wellington, Florida. The Company is the general partner and has a twenty six percent limited partnership interest. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. This restaurant opened for business on May 27, 2005. This entity is consolidated in the accompanying financial statements.

F-18

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

Davie, Florida

During the first quarter of fiscal year 2006, the Company, as agent for a Florida limited partnership to be formed, entered into a contract to purchase an existing restaurant in Davie, Florida for a purchase price of \$650,000 to renovate and operate a restaurant

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

under the "Flanigan's Seafood Bar and Grill" servicemark. Subsequent to the end of fiscal year 2006, a limited partnership was formed with the Company as general partner, which limited partnership expects to enter into a new lease for the business premises and close on the purchase at the start of the second quarter of fiscal year 2007. The initial estimate for renovations and pre-opening expenses is \$1,700,000. The funds necessary will be raised through a private offering by the limited partnership. The Company will act as general partner and own up to thirty percent of the limited partnership. The restaurant is expected to open for business during the fourth quarter of fiscal year 2007.

Pembroke Pines, Florida

During the third quarter of fiscal year 2006, the Company, as agent for a Florida limited partnership to be formed, entered into a contract to purchase an existing restaurant in Pembroke Pines, Florida for a purchase price of \$500,000 to renovate and operate a restaurant under the "Flanigan's Seafood Bar and Grill" servicemark. Subsequent to the end of fiscal year 2006, a limited partnership was formed with the Company as general partner, which limited partnership entered into a new lease for the business premises and closed on the purchase. The purchase price was reduced to approximately \$305,000 due to the fact that site plan restrictions in the plat where the business premises is located would not permit outdoor seating and the liquor license owned by the seller was a restaurant liquor license, with no market value, rather than a quota liquor license, with a market value of \$145,000, as contracted. The initial estimate for renovations and pre-opening expenses is \$1,600,000. The funds necessary will be raised through a private offering by the limited partnership. The Company will act as general partner and will own up to thirty percent of the limited partnership. The restaurant is expected to open for business during the third quarter of fiscal year 2007.

Fort Lauderdale, Florida

The Company has a franchise agreement with a limited partnership which owns a restaurant in Fort Lauderdale. The Company is a twenty-five percent limited partner in the franchise. Other related parties, including, but not limited to, officers and directors of the Company and their families are also investors. This entity is reported using the equity method in the accompanying consolidated financial statements.

F-19

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

The following is a summary of condensed unaudited financial information pertaining to the Company's limited partnership investment in Fort Lauderdale, Florida:

2006	2005	2004
----	----	----

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Financial Position:

Current assets	\$ 68,000	\$ 47,000	\$ 109,000
Non-current assets	588,000	544,000	483,000
Current liabilities	88,000	134,000	118,000
Non-current liabilities	71,000	81,000	91,000

Operating Results:

Revenues	2,171,000	2,111,000	2,244,000
Gross profit	1,426,000	1,378,000	1,438,000
Net income	122,000	72,000	25,000

NOTE 7. LIQUOR LICENSES

The Company stopped amortizing liquor licenses September 29, 2002. Liquor licenses are tested for impairment in September of each fiscal year. The fair value of liquor licenses at September 30, 2006, exceeded the carrying amount; therefore, no impairment loss was recognized. The fair value of the liquor licenses was evaluated by comparing the carrying value to recent sales for similar liquor licenses in the County issued. At September 30, 2006 and October 1, 2005, the total carrying amount of liquor licenses was approximately \$347,000. There were no liquor licenses acquired in fiscal year 2006 which require capitalization.

NOTE 8. INCOME TAXES

The components of the Company's provision for income taxes for fiscal years 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	----	----	----
Current:			
Federal	\$ 703,000	\$ 407,000	\$ 252,000
State	167,000	118,000	80,000
	-----	-----	-----
	870,000	525,000	332,000
	-----	-----	-----
Deferred:			
Federal	(94,000)	21,000	(146,000)
State	(26,000)	(3,000)	(16,000)
	-----	-----	-----
	(120,000)	18,000	(162,000)
	-----	-----	-----
	\$ 750,000	\$ 543,000	\$ 170,000
	=====	=====	=====

F-20

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 8. INCOME TAXES (Continued)

A reconciliation of income tax computed at the statutory federal rate to income tax expense is as follows:

2006	2005	2004
------	------	------

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

	-----	-----	-----
Tax provision at the statutory rate of 34%	\$ 795,000	\$ 561,000	\$ 207,000
State income taxes, net of federal income tax	93,000	76,000	40,000
Tax benefit of tip credit generated	(127,000)	(118,000)	(125,000)
Tax benefit of employee retention credit	(14,000)	--	--
Other	3,000	24,000	48,000
	-----	-----	-----
	\$ 750,000	\$ 543,000	\$ 170,000
	=====	=====	=====

At October 1, 2005, the Company had alternative minimum tax credit carryforwards available of approximately \$61,000, which were utilized in the fiscal year ending September 30, 2006.

The Company has deferred tax assets which arise primarily due to depreciation recorded at different rates for tax and book purposes offset by cost basis differences in depreciable assets due to the deferral of the recognition of insurance recoveries on casualty losses for tax purposes, investments in limited partnerships, accruals for potential uninsured claims and bonuses accrued for book purposes but not paid within two and a half months for tax purposes, and the capitalization of certain inventory costs for tax purposes not recognized for financial reporting purposes.

The components of the deferred tax assets were as follows at September 30, 2006 and October 1, 2005:

	2006	2005
	-----	-----
Current:		
Reversal of aged payables	\$ 27,000	\$ --
Capitalized inventory costs	22,000	--
Accrued bonuses	132,000	--
Accruals for potential uninsured claims	6,000	29,000
	-----	-----
	\$187,000	\$ 29,000
	=====	=====
Long-Term:		
Book/tax differences in property and equipment	\$233,000	\$351,000
Alternative minimum tax credit	--	61,000
Limited partnership investments	164,000	23,000
	-----	-----
	\$397,000	\$435,000
	=====	=====

F-21

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 9. DEBT

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Long-Term Debt

2006

Mortgage payable to bank; secured by first mortgage on a building; payable \$2,248 per month, plus interest through maturity in August, 2008, at which time the unpaid principal of approximately \$736,000 plus unpaid interest becomes due. The Company has entered into an interest rate swap agreement for a notional amount of approximately \$895,000. The interest rate swap agreement hedges the variable interest rate of the mortgage payable to a fixed rate of 8.62%.

\$788,000

Note payable to bank by limited partnership, unsecured, bearing interest at 6.5%, payable in monthly installments of principal and interest of approximately \$4,600, maturing in March 2008.

79,000

Mortgage payable, secured by land, bearing interest at 8%; payable in monthly installments of principal and interest of approximately \$3,000, which mortgage was paid off during the fourth quarter of fiscal 2006.

Mortgage payable, secured by land and building, bearing interest at 7.5%; payable in monthly installments of principal and interest of \$26,645, maturing in August 2013.

3,274,000

Notes payable to bank, secured by vehicles, bearing interest at 0.9% payable in monthly installments of principal and interest of approximately \$1,800 per month, maturing in October 2007.

24,000

Note payable to finance company, secured by vehicle, bearing interest at 9.25%, payable in monthly installments of principal and interest of approximately \$4,500 through maturity in July 2010, at which time the unpaid principal of \$45,000 becomes due.

196,000

Note payable to finance company, secured by vehicle, bearing interest at 9.04%, payable in monthly installments of principal and interest of approximately \$1,300 through maturity in February 2011.

58,000

F-22

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 9. DEBT (Continued)

Long-Term Debt (Continued)

2006

Note payable to bank, unsecured, bearing interest at prime payable in monthly installments of principal and interest of approximately \$3,100, which was paid off during the second quarter of fiscal year 2006 with funds drawn on the Company's line of credit.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

	4,419,000
Less current portion	223,000

	\$4,196,000
	=====

Long-term debt at September 30, 2006 matures as follows:

2007	\$223,000
2008	925,000
2009	145,000
2010	190,000
2011	110,000
Thereafter	2,826,000

	\$4,419,000
	=====

Line of Credit

As of the end of fiscal 2006, the Company has a \$2,000,000 line of credit, which has a variable interest rate at prime and is payable in monthly installments of interest only on the outstanding principal balance, with a two (2) year maturity in the second quarter of fiscal year 2008. Subsequent to the end of fiscal 2006, the Company increased its line of credit to \$2,650,000, under the same terms and conditions. However, the Company granted its lender a second mortgage on its corporate offices as additional collateral for the increase in the line of credit in addition to a security interest in substantially all of the assets of the Company. As of September 30, 2006, the line of credit had a principal balance of \$762,000. Subsequent to the end of fiscal year 2006, the Company drew additional funds on its line of credit, in the aggregate amount of \$1,200,000, raising the total outstanding balance to \$1,962,000.

NOTE 10. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Legal Matters

The Company is a party to various claims, legal actions and complaints arising in the ordinary course of its business. In the opinion of management, all such matters are without merit or involve such amounts that an unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

F-23

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 10. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Leases

The Company leases a substantial portion of the land and buildings used in its operations under leases with initial terms expiring

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

between 2007 and 2049. Renewal options are available on many of the leases. Most of the leases are fixed rent agreements. In two instances, lease rentals are subject to sales overrides ranging from 1.75% to 4% of annual sales in excess of between \$1,162,000 and \$1,200,000. Rent expense is recognized on a straight line basis over the term of the lease. Certain of the leases are subject to fair market rental appraisals at the time of renewal. Certain properties are subleased through various expiration dates.

During the fourth quarter of fiscal year 2001, the Company entered into a ground lease for an out parcel in Hollywood, Florida. The Company constructed a building on the out parcel, one-half (1/2) of which is used by the Company for the operation of a package liquor store and the other one-half (1/2) was subleased by the Company as retail space during the second quarter of fiscal 2004. Rent for the retail space commenced January 1, 2005, and income of \$45,000 and \$31,400 was derived from this source during fiscal years ending September 30, 2006 and October 1, 2005, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

2007	\$ 2,156,000
2008	2,026,000
2009	1,842,000
2010	1,682,000
2011	1,300,000
Thereafter	6,604,000

Total	\$15,610,000
	=====

Total rent expense for all operating leases was approximately \$2,355,000, \$2,158,000 and \$1,957,000 in fiscal years 2006, 2005 and 2004, respectively, and is included in "Occupancy costs" in the accompanying consolidated statements of income. This total rent expense is comprised of the following:

	2006 ----	2005 ----	2004 ----
Minimum	\$2,172,000	\$2,158,000	\$1,957,000
Contingent	183,000	175,000	159,000
	-----	-----	-----
Total	\$2,355,000	\$2,333,000	\$2,116,000
	=====	=====	=====

The Company guarantees various leases for franchisees. Remaining rental payments required under these leases total approximately \$1,570,000.

F-24

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 10. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Purchase Commitments

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Effective December 1, 2006, the Company entered into a purchase agreement with its rib supplier. The terms of the agreement stipulate that the Company will purchase approximately \$2,800,000 of baby back ribs during the 2007 calendar year at a fixed cost. The Company contracts for the purchase of baby back ribs on an annual basis to fix the cost and ensure adequate supply for the calendar year. The Company purchases all of its rib supply from this vendor, but management believes that several other alternative vendors are available, if necessary.

Franchise Program

At September 30, 2006, the Company was the franchisor of seven units under franchise agreements. Of the seven franchised stores, four are owned and operated by related parties. Under the franchise agreements, the Company agrees to provide guidance, advice and management assistance to the franchisees. In addition, the Company acts as fiscal agent for the franchisees whereby the Company collects all revenues and pays all expenses and distributions. The Company also, from time to time, advances funds on behalf of the franchisees for the cost of renovations. The resulting amounts receivable from and payable to these franchisees are reflected in the accompanying consolidated balance sheet as either an asset or a liability. The Company also agrees to sponsor and manage cooperative buying groups on behalf of the franchisees for the purchase of inventory. The franchise agreements provide for royalties to the Company of approximately 3% of gross sales. The Company is not currently offering or accepting new franchises.

Employment Agreement/Bonuses

On December 31, 2004, the Company renewed the employment agreement with its former Chief Executive Officer, Joseph G. Flanigan, for calendar year 2005. The agreement provided, among other things, for a base annual salary not to exceed \$150,000 and a performance bonus equal to 20% of pre-tax net income before depreciation and amortization in excess of \$650,000, 10% of which is to be allocated to other members of management. The employment agreement terminated upon the death of Joseph G. Flanigan on January 28, 2005.

Bonuses for fiscal year 2004 under the employment agreement amounted to approximately \$224,000 (none in 2006 or 2005).

As of September 30, 2006, the Company had no employment agreements.

During the second quarter of fiscal year 2005, the Board of Directors approved an annual performance bonus, with 14% of the pre-tax net income before depreciation and amortization in excess of \$650,000 paid to the Chief Executive Officer and 6% paid to other members of management. Bonuses for fiscal year 2006 and 2005 amounted to approximately \$523,000 and \$448,000, respectively.

F-25

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 10. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Employment Agreement/Bonuses (Continued)

During the second quarter of fiscal year 2005, the Board of Directors also approved an annual performance bonus, with 5% of the pre-tax net income before depreciation and amortization from the Company's restaurants and the Company's share of the pre-tax net income before depreciation and amortization from the restaurants owned by the limited partnerships paid to the Chief Operating Officer and 5% paid to the Chief Financial Officer. Bonuses for fiscal year 2006 and 2005 amounted to \$298,000 and \$216,000, respectively.

During the second quarter of fiscal year 2005, the Board of Directors approved an annual performance bonus, with 3% of the pre-tax net income before depreciation and amortization from the package liquor stores paid to the Vice President of Package Operations and 2% paid to the package store supervisor. Bonuses for fiscal year 2006 and 2005 amounted to \$52,000 and \$48,000, respectively.

Management Agreements

Atlanta, Georgia

During fiscal years 2006, 2005 and 2004, the Company received an owner's fee pursuant to a management agreement with a non-related company that operates a club in Atlanta, Georgia, which club is owned by the Company. The non-related company entered into a new lease agreement for the business premises, which new lease commenced May 1, 2006 for a period of ten (10) years, with one (1) ten (10) year renewal option. The Company has no liability on the new lease, but since the non-related company still operates under the management agreement, the Company continues to receive an owner's fee of \$150,000 per year, paid monthly, versus ten (10%) percent of gross sales from the club, whichever is greater, subject to adjustment annually as rental increases under the new lease take effect. One-half (1/2) of the rental increases will be credited against the owner's fee, each year, provided the owner's fee is never less than \$150,000 per year. The management agreement provided for a security deposit of \$200,000, but during fiscal year 2005 and 2006, \$130,000 and \$70,000, respectively of the security deposit was applied towards outstanding additional owner's fee due the Company. As of September 30, 2006, no balance remains of the security deposit. In fiscal years 2006, 2005 and 2004, the owner's fee earned was \$224,000, \$261,000 and \$265,000, respectively.

Deerfield Beach, Florida

During the first quarter of fiscal year 2006, the Company entered into a management agreement to operate an existing restaurant in Deerfield Beach, Florida under its current format, "The Whale's Rib", and to be entitled to one-half (1/2) of the net profit from the operation of the same. The term of the management agreement is for ten (10) years, with four (4) five (5) year renewal options. The Company paid \$500,000 for the management rights to the restaurant. The Company assumed the management of this restaurant on January 9, 2006. For the nine (9) months of fiscal year 2006, the Company recognized income under the management agreement of \$108,000.

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 11. COMMON STOCK

Treasury Stock

Purchase of Common Shares

During fiscal years 2006, 2005 and 2004, the Company purchased a total of 14,350, 42,720 and 30,400 shares of Company common stock, respectively, at a total cost of approximately \$139,000, \$353,000 and \$201,000, respectively, under a repurchase program authorized by the Board of Directors. Of the shares of the Company's common stock purchased during fiscal year 2006, 7,500 shares were purchased from the Chief Operating Officer/Director of the Company, at a total cost of approximately \$77,000. No shares of the Company's common stock purchased during fiscal years 2005 and 2004 were purchased from officers or directors of the Company.

Sale of Common Shares

During fiscal years 2006, 2005 and 2004, the Company sold an aggregate of 24,120, 490 and 20,755 shares of its common stock, respectively, pursuant to the exercise of options, to certain employee and officers for a total of approximately \$116,000, \$2,000 and \$93,000, respectively.

Stock Options

There were no options granted during fiscal years 2006 and 2005.

In May 2004, the Company granted options to purchase 50,000 shares of Company common stock to certain employees. The options vested one year from the grant date, have a five-year life, and an exercise price of \$6.35 per share, the then market price of the common stock. At September 30, 2006, options to purchase 45,000 shares remain outstanding and exercisable.

In October 2003, the Company granted options to purchase 16,550 shares of Company common stock to certain employees. The options vested one year from the grant date, have a five-year life, and an exercise price of \$6.14 per share, the then market price of the common stock. At September 30, 2006, options to purchase 12,900 shares remain outstanding and exercisable.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R) to account for stock-based employee compensation. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. The Company had no unvested stock options as of January 1, 2006 and granted no stock options in the nine months ended September 30, 2006, so no compensation cost has been recognized on the Company's consolidated

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

financial statements for the year ended September 30, 2006.

F-27

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. COMMON STOCK (Continued)

Stock Options (Continued)

Changes in outstanding incentive stock options for common stock are as follows:

	2006 ----	2005 ----	2004 ----
Outstanding at beginning of year	100,810	101,900	122,660
Options granted	--	--	66,550
Options exercised	(24,120)	(490)	(20,755)
Options expired	(8,840)	(600)	(66,555)
	-----	-----	-----
Outstanding at end of year	67,850	100,810	101,900
	-----	-----	-----
Exercisable at end of year	67,850	100,810	51,900
	=====	=====	=====

The weighted-average grant-date fair value of the 66,550 options granted during the year ended October 2, 2004 was \$419,000 (none in 2005 or 2006).

The intrinsic value as of the exercise date of the 24,120, 490 and 20,755 stock options exercised during the years ended September 30, 2006, October 1, 2005 and October 2, 2004 were \$124,000, \$2,000 and \$42,000, respectively.

Weighted average option exercise price information for fiscal years 2006, 2005 and 2004 is as follows:

	2006 ----	2005 ----	2004 ----
Outstanding at beginning of year	\$ 5.75	\$ 5.77	\$ 4.61
	=====	=====	=====
Granted during the year	\$ --	\$ --	\$ 6.30
	=====	=====	=====
Exercised during the year	\$ 4.83	\$ 4.56	\$ 4.50
	=====	=====	=====
Outstanding at end of year	\$ 6.27	\$ 5.75	\$ 5.77
	=====	=====	=====
Exercisable at end of year	\$ 6.27	\$ 5.75	\$ 5.20
	=====	=====	=====

Significant option groups outstanding at September 30, 2006 and related weighted average price and life information are as follows:

Grant	Options	Options	Exercise	Remaining
-------	---------	---------	----------	-----------

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Date ----	Outstanding -----	Exercisable -----	Price -----	Life (Years) -----
4-2-02	9,950	9,950	\$6.10	0.5
10-1-03	12,900	12,900	\$6.14	2.0
5-20-04	45,000	45,000	\$6.35	2.5

The weighted-average remaining contractual terms of stock options outstanding and stock options exercisable at September 30, 2006 was 2.2 years. The aggregate intrinsic value of options outstanding and stock options exercisable at September 30, 2006 was approximately \$186,000.

F-28

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. NET INCOME PER COMMON SHARE

The Company follows SFAS No. 128, "Earnings per Share." SFAS 128 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share assume the exercise of options granted. Earnings per share are computed by dividing income available to common stockholders by the basic and diluted weighted average number of common shares.

	2006 ----	2005 ----	2004 ----
Basic weighted average shares	1,884,000	1,895,000	1,922,000
Incremental shares relating to outstanding options	25,000	28,000	11,000
	-----	-----	-----
Diluted weighted average shares	1,909,000	1,923,000	1,933,000
	=====	=====	=====

NOTE 13. RELATED PARTY TRANSACTIONS

The Company's Chief Executive Officer manages one of the Company's franchised stores.

During fiscal year 2004, the Company incurred legal fees in the form of salary of approximately \$55,000 for services provided by a member of the Board of Directors. These legal fees ceased during fiscal year 2004 when this Board member became a full-time employee and the associated salary was included in officers' payroll.

The Company paid approximately \$109,000 in lease rentals to an entity owned and controlled by a former member of its Board of Directors during fiscal year 2004. During fiscal year 2004, the related party sold all related property.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Also see Notes 4, 6, 10, and 11 for additional related party transactions.

NOTE 14. BUSINESS SEGMENTS

The Company operates principally in two segments -package stores and restaurants. The operation of package stores consists of retail liquor sales.

Information concerning the revenues and operating income for the fiscal years ended 2006, 2005 and 2004, and identifiable assets for the two segments in which the Company operates, 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 expense and income taxes. Identifiable assets by segment are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, notes and mortgages receivable, real property, improvements, furniture, equipment and vehicles. The Company does not have any operations outside of the United States and intersegment transactions are not material.

F-29

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. BUSINESS SEGMENTS (Continued)

	2006 ----	2005 ----	
Operating Revenues:			
Restaurants	\$ 40,457,000	\$ 35,829,000	\$
Package stores	13,046,000	11,810,000	
Other revenues	1,511,000	1,393,000	
	-----	-----	
Total operating revenues	\$ 55,014,000	\$ 49,032,000	\$
	=====	=====	==
Operating Income Reconciled to Income before Income Taxes: and Minority Interest in Earnings of Consolidated Limited Partnerships			
Restaurants	\$ 3,311,000	\$ 3,457,000	\$
Package stores	817,000	744,000	
	-----	-----	
Corporate expenses, net of other revenues	4,128,000	4,201,000	
	(2,429,000)	(2,035,000)	
	-----	-----	
Operating income	1,699,000	2,166,000	
Equity in net income of limited partnership	31,000	18,000	
Minority interest in earnings of consolidated limited partnerships	(312,000)	(403,000)	
Interest expense, net of interest income	(164,000)	(68,000)	
Other	807,000	58,000	

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Loss on abandonment of property and equipment	(61,000)	(121,000)	
Income Before Income Taxes	\$ 2,000,000	\$ 1,650,000	\$
Identifiable Assets:			
Restaurants	\$ 15,635,000	\$ 10,277,000	\$
Package store	3,602,000	3,527,000	
Corporate	19,237,000	13,804,000	
Consolidated Totals	\$ 27,398,000	\$ 21,099,000	\$
Capital Expenditures:			
Restaurants	\$ 2,891,000	\$ 1,848,000	\$
Package stores	148,000	251,000	
Corporate	3,039,000	2,099,000	
Total Capital Expenditures	\$ 3,780,000	\$ 2,397,000	\$
Depreciation and Amortization:			
Restaurants	\$ 1,255,000	\$ 1,166,000	\$
Package stores	229,000	163,000	
Corporate	1,484,000	1,329,000	
Total Depreciation and Amortization	\$ 1,817,000	\$ 1,543,000	\$

F-30

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 15. QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of the Company's unaudited quarterly results of operations for the quarters in fiscal years 2006 and 2005.

	Quarter Ended			
	December 31, 2005	April 1, 2006	July 1, 2006	Sep
Revenues	\$ 13,249,000	\$ 14,477,000	\$13,851,000	\$13
Income (loss) from operations	662,000	518,000	654,000	
Net income (loss)	363,000	582,000	203,000	

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Net income (loss) per share - basic	.19	.31	.11
Net income (loss) per share - diluted	.19	.30	.11
Weighted average common stock outstanding - basic	1,874,776	1,879,809	1,893,486
Weighted average common stock outstanding - diluted	1,913,990	1,908,919	1,920,472

The following is a summary of the significant fourth quarter adjustments for fiscal year 2006:

Additional accrual for officers' bonuses	\$ 116,000 =====
--	---------------------

	Quarter Ended			
	January 1, 2005 ----	April 2, 2005 ----	July 2, 2005 ----	October 2, 2005 ----
Revenues	\$11,825,000	\$12,449,000	\$12,342,000	\$12,342,000
Income from operations	339,000	598,000	716,000	716,000
Net income (loss)	240,000	327,000	499,000	499,000
Net income (loss) per share - basic	0.13	0.17	0.26	0.26
Net income (loss) per share - diluted	0.12	0.17	0.26	0.26
Weighted average common stock outstanding - basic	1,915,000	1,905,000	1,885,000	1,885,000
Weighted average common stock outstanding - diluted	1,929,000	1,933,000	1,912,000	1,912,000

The following is a summary of the significant fourth quarter adjustments for fiscal year 2005:

Additional accrual for officers' bonuses	\$ 250,000
Adjusting estimated income taxes to actual	100,000
Abandonment of property and equipment	121,000

	\$ 471,000 =====

F-31

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 15. QUARTERLY INFORMATION (UNAUDITED) (Continued)

Quarterly operating results are not necessarily representative of operations for a full year for various reasons including the seasonal nature of both the restaurant and package store segments.

NOTE 16. 401(k) PLAN

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Effective July 2004, the Company began sponsoring a 401(k) retirement plan covering substantially all employees who met certain eligibility requirements. Employees may contribute elective deferrals to the plan up to amounts allowed under the Internal Revenue Code. The Company is not required to contribute to the plan but may make discretionary profit sharing and matching contributions. During fiscal year 2006 and 2005, the Company made discretionary contributions of \$12,000 and \$37,500, respectively (none in 2004).

NOTE 17. SUBSEQUENT EVENTS

Hurricane Wilma

During fiscal year 2006, the Company submitted insurance claims totaling \$1,092,300 for damages and losses for business interruption caused when Hurricane Wilma impacted South Florida on October 24, 2005. Other income and expense for fiscal 2006 includes insurance recovery, net of casualty loss, of \$666,000 which includes the deletion of the net book value of property and equipment as a result of Hurricane Wilma (\$64,000), repair of damage (\$138,000) and food waste (\$61,000). Subsequent to the end of fiscal year 2006, the Company settled its claims against its insurance carrier for \$929,000, (\$979,000 less the \$50,000 deductible). During fiscal year 2006, the Company received advances in the aggregate amount of \$700,000, (\$750,000 less the \$50,000 deductible), from its insurance carrier and subsequent to the end of fiscal year 2006 received a final payment of \$229,000.

Contracts to Purchase Real Property

Purchase of Real Property Subject to Ground Lease (Hallandale, FL.)

Subsequent to the end of fiscal year 2006, the Company simultaneously entered into a contract and closed on the purchase of the real property which is subject to a ground lease owned by the Company at its combination restaurant and package liquor store located in Hallandale, Florida, (Store #31). The purchase price for this property was \$552,500, which was partially financed with an advance of \$250,000 on a mortgage (see Note 2).

F-32

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 17. SUBSEQUENT EVENTS (Continued)

Contracts to Purchase Real Property (Continued)

Purchase of Real Property Subject to Ground Lease (N. Miami, FL.)

Subsequent to the end of fiscal year 2006, the Company entered into a contract and closed on the purchase of the real property which is subject to a ground lease owned by the Company and subleased to an unrelated third party located in North Miami, Florida (Store #27). The purchase price for this property was \$250,000, which was paid in cash by the Company at closing.

Edgar Filing: FLANIGANS ENTERPRISES INC - Form 10-K

Internal Revenue Service Audit of Company's Corporate Income Tax Return for the Fiscal Year Ending October 1, 2005

Subsequent to the end of fiscal year 2006, the Company received notification from the Internal Revenue Service that its corporate income tax return for the fiscal year ending October 1, 2005 was being audited. The audit was completed prior to the end of the first quarter of fiscal year 2007, with the Company agreeing that the sum of \$107,000 was due as additional corporate income tax for the fiscal year ending October 1, 2005.

Re-Financing

Corporate Offices

Subsequent to the end of fiscal 2006, the Company re-financed the mortgage note encumbering the Company's corporate offices. The new mortgage, in the original principal amount of \$1,000,000, bears interest at the rate of 7.25% per annum, is amortized over twenty (20) years with equal monthly payments of principal and interest, each in the amount of \$8,000, with the entire principal balance and all accrued interest due in seven (7) years. The pre-payment of the mortgage note, which otherwise matured in August, 2008, incurred a prepayment penalty of \$17,000.

Schedule II - Valuation and Qualifying Accounts

The Company maintains no accounts that qualify for this schedule for each of the three years ended September 30, 2006, October 1, 2005 or October 2, 2004.