FLANIGANS ENTERPRISES INC
Form 10-K
December 24, 2008

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

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

For the fiscal year ended September 27, 2008

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

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [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 $6,838,000 as of March 29, 2008, the last business day of the registrant's most recently completed second fiscal quarter, at a price of $8.05 per share.

There were 1,875,333 shares of the Registrant's Common Stock, $0.10 par value, outstanding as of December 22, 2008

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy statement for the 2009 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission by January 26, 2009.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

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



## 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. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this annual report on Form 10-K.

### General

At September 27, 2008, we (i) operate 23 units, (excluding the adult entertainment club referenced in (ii) below), consisting of restaurants, package liquor stores and combination restaurants/package liquor stores that we either own or have operational control over and partial ownership in; (ii) own but do not operate one adult entertainment club; and (iii) franchise an additional six units, consisting of two restaurants, (one of which we operate) and four combination restaurants/package liquor stores. The table below provides information concerning the type (i.e. restaurant, package liquor store or combination restaurant/package liquor store) and ownership of the units (i.e. whether (i) we own 100% of the unit; (ii) the unit is owned by a limited partnership of which we are the sole general partner and/or have invested in; or (iii) the unit is franchised by us), as of September 27, 2008 and as compared to September 29, 2007. With the exception of "The Whale's Rib", a restaurant we operate but do not own, all of the restaurants operate under our service mark "Flanigan's Seafood Bar and Grill" and all of the package liquor stores operate under our service mark "Big Daddy's Liquors".

| TYPES OF UNITS | FISCAL YEAR 2008 | FISCAL YEAR 2007 | NOTE NUMBER |
|---|---|---|---|
| Company Owned: | | | |
| Combination package liquor store and restaurant | 4 | 4 | |
| Restaurant only | 3 | 3 | (1) |
| Package liquor store only | 5 | 5 | |
| Company Managed Restaurants Only: | | | |
| Limited partnerships | 9 | 7 | (2)(3) |
| Franchise | 1 | 1 | |
| Unrelated Third Party | 1 | 1 | |
| Company Owned Club: | 1 | 1 | |
| TOTAL - Company Owned/Operated Units: | 24 | 22 | |
| FRANCHISED - units | 6 | 6 | (4) |



Notes:

(1) Includes a restaurant located in Lake Worth, Florida which we acquired from a franchisee during the second quarter of our fiscal year 2007 and which commenced operating as a Company owned restaurant on March 4, 2007.

(2) Includes a restaurant located in Pembroke Pines, Florida which is owned by a limited partnership in which we are the sole general partner and own 17% of the limited partnership interest and commenced operating on October 29, 2007.

(3) Includes a restaurant located in Davie, Florida which is owned by a limited partnership in which we are the sole general partner and own 48% of the limited partnership interest and commenced operating on July 28, 2008.

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

With the exception of our combination package store and restaurant located at 4 N. Federal Highway, Hallandale, Florida, (Store #31), which is operated on property owned by us, all of our package liquor stores, restaurants as well as our adult entertainment club are operated on properties leased from unaffiliated third parties.

## History and Development of Our Business

We were incorporated in Florida in 1959 and commenced operating as a chain of small cocktail lounges and package liquor stores throughout South Florida. By 1970, we had established a chain of "Big Daddy's" lounges and package liquor stores between Vero Beach and Homestead, Florida. From 1970 to 1979, we expanded our package liquor store and lounge operations throughout Florida and opened clubs in five other "Sun Belt" states. In 1975, we discontinued most of our package store operations in Florida except in the South Florida areas of Miami-Dade, Broward, Palm Beach and Monroe Counties. In 1982 we expanded our club operations into the Philadelphia, Pennsylvania area as general partner of several limited partnerships we organized. In March 1985 we began franchising package liquor stores and lounges in the South Florida area. See Note 7 to the consolidated financial statements and the discussion of franchised units on page 8.

During our fiscal year 1987, we began renovating our lounges to provide full restaurant food service, and subsequently renovated and added food service to most of our lounges. Food sales currently represent approximately 81% and bar sales approximately 19% of our total restaurant sales.

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Our package liquor stores emphasize high volume business by providing customers with a wide variety of brand name and private label merchandise at discount prices. Our restaurants offer alcoholic beverages and full food service with abundant portions and reasonable prices, served in a relaxed, friendly and casual atmosphere.

We conduct our operations directly and through a number of limited partnerships and wholly owned subsidiaries, all of which are listed below. Our subsidiaries and the limited partnerships, (except for the limited partnership, where we are not the general partner, which owns and operates our franchised restaurant in Fort Lauderdale, Florida) are reported on a consolidated basis.

| 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 | 40 |
| CIC Investors #50, Limited Partnership | Florida | 17 |

| | | |
|---|---|---|
| CIC Investors #55, Limited Partnership | Florida | 48 |
| CIC Investors #60, Limited Partnership | Florida | 45 |
| CIC Investors #65, Limited Partnership | Florida | 28 |
| CIC Investors #70, Limited Partnership | Florida | 41 |
| CIC Investors #75, Limited Partnership | Florida | 13 |
| CIC Investors #80, Limited Partnership | Florida | 27 |
| CIC Investors #95, Limited Partnership | Florida | 30 |
| Josar Investments, LLC | Florida | 100 |

Package Liquor Store Operations

Our package liquor stores emphasize high volume business by providing customers with a wide selection of brand name and private label liquors, beer and wines while offering competitive pricing by meeting the published sales prices of our competitors. We provide extensive sales training to our package liquor store personnel. The stores are open for business 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.



Company Owned Package Liquor Stores. We own and operate nine package liquor stores in the South Florida area under the name "Big Daddy's Liquors", four of which are jointly operated with restaurants we own.

Franchised Package Liquor Stores. We franchise four package liquor stores in the South Florida area, all of which are operated under the name "Big Daddy's Liquors" and are jointly operated with our franchisee's restaurant operations. Three of the four franchised package liquor stores are franchised to members of the family of our Chairman of the Board, officers and/or directors. We have not entered into a franchise arrangement for either a package liquor store, restaurant or combination package liquor store/restaurant since 1986 and do not anticipate that we will do so in the foreseeable future.

Generally, a franchise agreement with our franchisees for the operation of a package liquor store runs for the balance of the term of the franchisee's lease for the business premises, extended by the franchisee's continued occupancy of the business premises thereafter, whether by lease or ownership. In exchange for our providing management and related services to the franchisee and our granting the right to the franchisee to use our service mark, "Big Daddy's Liquors", franchisees of package liquor stores pay us weekly in arrears, (i) a royalty equal to approximately 1% of gross sales; plus (ii) an amount for advertising equal to between 1-1/2% to 3% of gross sales generated at the stores depending upon our actual advertising costs.

Restaurant Operations.

Our restaurants provide a neighborhood casual, standardized dining experience, typical of restaurant chains. The interior decor of the restaurants

is nautical with numerous fishing and boating pictures and decorations. The restaurants are designed to permit minor modifications without significant capital expenditures. However, from time to time we are required to redesign and refurbish the restaurants at significant cost. Drink prices may vary between locations to meet local conditions. Food prices are substantially standardized for all restaurants. The restaurants' hours of operation are from 11:00 a.m. to 1:00-5:00 a.m. depending upon demand and local law.

Company Owned Restaurants. We own and operate seven restaurants all under our service mark "Flanigan's Seafood Bar and Grill" four of which are jointly operated with package liquor stores we own. We acquired one of the seven restaurants we own, (the Lake worth, Florida restaurant), during the second quarter of our fiscal year 2007 from a former franchisee who informed us that he did not intend to continue operating the restaurant.

Franchised Restaurants. We franchise six restaurants, all of which operate under our service mark "Flanigan's Seafood Bar and Grill", two of which operate as a restaurant only and four of which operate jointly with a franchisee operated "Big Daddy's Liquors" package liquor store.

Generally, a franchise agreement with our franchisees for the operation of a restaurant runs for the balance of the term of the franchisee's lease for the business premises, extended by the franchisee's continued occupancy of the business premises thereafter, whether by lease or ownership. In



exchange for our providing management and related services to the franchisee and our granting the right to the franchisee to use our service mark, "Flanigan's Seafood Bar and Grill", our franchisees pay us weekly in arrears, (i) a royalty equal to approximately 3% of gross sales; plus (ii) an amount for advertising equal to between 1-1/2% to 3% of gross sales from the restaurants.

For accounting purposes, we do not consolidate the revenue and expenses of our franchisees' operations with our revenue and expenses. Franchise royalties we receive are "earned" when sales are made by franchisees.

## Restaurants Owned by Affiliated Limited Partnerships

We have invested with others, (some of whom are or are affiliated with our officers and directors), in ten limited partnerships which currently own and operate ten South Florida based restaurants under our service mark "Flanigan's Seafood Bar and Grill". In addition to being a limited partner in these limited partnerships, we are the sole general partner of all of these limited partnerships and manage and control the operations of the restaurants except for the restaurant located in Fort Lauderdale, Florida where we only hold a limited partnership interest.

Generally, the terms of the limited partnership agreements provide that until the investors' cash investment in a limited partnership (including any cash invested by us) is returned in full, the limited partnership distributes to the investors annually out of available cash from the operation of the restaurant, as a return of capital, up to 25% of the cash invested in the limited partnership, with no management fee paid to us. Any available cash in excess of the 25% of the cash invested in the limited partnership distributed to the investors annually, is paid one-half (1/2) to us as a management fee and one-half (1/2) to the investors, (including us), prorata based on the investors' investment, as a return of capital. Once all of the investors, (including us), have received, in full, amounts equal to their cash invested, an annual

management fee becomes payable to us equal to one-half (1/2) of cash available to be distributed, with the other one half (1/2) of available cash distributed to the investors (including us), as a profit distribution, pro-rata based on the investors' investment. As of September 27, 2008, limited partnerships owning three (3) restaurants, (Surfside, Florida, Kendall, Florida and West Miami, Florida locations), have returned all cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by the limited partnership. In addition to our receipt of distributable amounts from the limited partnerships, we receive a fee equal to 3% of gross sales for use of our "Flanigan's Seafood Bar and Grill" service mark, which use is authorized while we act as general partner only. This 3% fee is "earned" when sales are made by the limited partnerships and is paid weekly, in arrears. We anticipate that we will continue to form limited partnerships to raise funds to own and operate restaurants under our service mark "Flanigan's Seafood Bar and Grill" using the same or substantially similar financial arrangement.

Below is information on the ten limited partnerships which own and operate "Flanigan's Seafood Bar and Grill" restaurants:

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Pinecrest, Florida

We are the sole general partner and 40% limited partner in this limited partnership which has owned and operated a restaurant in Pinecrest, Florida under our "Flanigan's Seafood Bar and Grill" service mark since August 14, 2006. 15.0% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 18% of their initial cash invested.

Fort Lauderdale, Florida

A corporation, owned by one of our directors, acts as sole general partner of a limited partnership which has owned and operated a restaurant in Fort Lauderdale, Florida under our "Flanigan's Seafood Bar and Grill" service mark since April 1, 1997. We have a 25% limited partnership interest in this limited partnership. 58.8% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all cash invested, but since we are not the general partner of this limited partnership, we do not receive an annual management fee. We have a franchise arrangement with this limited partnership and for accounting purposes, we do not consolidate the operations of this limited partnership into our operations.

Surfside, Florida

We are the sole general partner and a 45% limited partner in this limited partnership which has owned and operated a restaurant in Surfside, Florida under our "Flanigan's Seafood Bar and Grill" service mark since March 6, 1998. 34.9% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by this limited partnership.

Kendall, Florida

We are the sole general partner and a 41% limited partner in this limited

partnership which has owned and operated a restaurant in Kendall, Florida under our "Flanigan's Seafood Bar and Grill" service mark since April 4, 2000. 29.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by this limited partnership.

West Miami, Florida

We are the sole general partner and a 27% limited partner in this limited partnership which has owned and operated a restaurant in West Miami, Florida under our "Flanigan's Seafood Bar and Grill" service mark since October 11, 2001. 34.1% of the remaining limited partnership interest is



owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by this limited partnership.

Weston, Florida

We are the sole general partner and a 30% limited partner in this limited partnership which has owned and operated a restaurant in Weston, Florida under our "Flanigan's Seafood Bar and Grill" service mark since January 20, 2004. 35.1% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 73.75% of their initial cash invested. During the first quarter of our fiscal year 2009, no distribution was made to limited partners as this limited partnership had limited cash flow generated by this restaurant. The limited cash flow was primarily attributable to increased competition, which we expect to continue into our fiscal year 2009.

Stuart, Florida

We are the sole general partner and 13% limited partner in this limited partnership which has owned and operated a restaurant in a Howard Johnson's Hotel in Stuart, Florida under our "Flanigan's Seafood Bar and Grill" service mark since January 11, 2004. 31.0% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 22.5% of their initial cash invested. During our fiscal year 2006, the limited partners of this limited partnership only received three (3) quarterly distributions due to the limited cash flow generated by the restaurant. During our fiscal years 2007 and 2008, no distributions were made to limited partners as this limited partnership had net losses of $98,000 and $8,000 from the operation of the restaurant during the fiscal years 2007 and 2008, respectively, before depreciation and amortization, and owed the Company $203,000 and $216,000, as of the end of our fiscal years 2007 and 2008, respectively, in advances made to meet operating losses.

Wellington, Florida

We are the sole general partner and a 28% limited partner in this limited partnership which has owned and operated a restaurant in Wellington, Florida under our "Flanigan's Seafood Bar and Grill" service mark since May 27, 2005.

25.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 41% of their initial cash invested.

Davie, Florida

We are the sole general partner and a 48% limited partner in this limited partnership which has owned and operated a restaurant in Davie, Florida under our "Flanigan's Seafood Bar and Grill" service mark since July



28, 2008. 9.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has yet to return to its investors any of their initial cash invested.

Pembroke Pines, Florida

We are the sole general partner and a 17% limited partner in this limited partnership which has owned and operated a restaurant in Pembroke Pines, Florida under our "Flanigan's Seafood Bar and Grill" service mark since October 29, 2007. 17.9% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 7.0% of their initial cash invested.

## Management Agreement for "The Whale's Rib" Restaurant

Since January, 2006, we have managed "The Whale's Rib", a casual dining restaurant located in Deerfield Beach, Florida, pursuant to a management agreement. We paid $500,000 in exchange for our rights to manage this restaurant. The restaurant is owned by a third party unaffiliated with us. In exchange for providing management, bookkeeping and related services, we receive one-half (1/2) of the net profit, if any, from the operation of the restaurant. The term of the management agreement, which commenced January 9, 2006, is for ten (10) years, with four (4) five (5) year renewal options in favor of the owner of the restaurant. For our fiscal years ended September 27, 2008 and September 29, 2007, we generated $150,000 and $160,000 of revenue, respectively, from providing these management services.

## Adult Entertainment Club

We own, but do not operate, an adult entertainment nightclub located in Atlanta, Georgia which operates under the name "Mardi Gras". We have a management agreement with an unaffiliated third party to manage the club. Effective May 1, 2006, the unaffiliated third party that manages the club became obligated under a new lease for the business premises where the club operates for a period of ten (10) years, with one (1) ten (10) year renewal option and as of such date we are no longer obligated under the lease. Under our management agreement, the unaffiliated third party management firm is obligated to pay us an annual amount, paid monthly, equal to the greater of $150,000 or ten (10%) percent of gross sales from the club, offset by one-half (1/2) of any rental increases, provided our fees will never be less than $150,000 per year. For our fiscal years ended September 27, 2008 and September 29, 2007, we generated $238,000 and $203,000 of revenue, respectively, from the operation of the club.

Operations and Management
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We emphasize systematic operations and control of all package liquor stores and restaurants regardless of whether we own, franchise or manage the



unit. 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 our guidelines and procedures. We have in effect an incentive cash bonus program for our managers and salespersons based upon various performance criteria. Our 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 liquor store, restaurant and club operations in specific geographic districts.

All of our managers and salespersons receive extensive training in sales techniques. We arrange 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. Our 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 of our purchases of liquor inventory are made through our purchasing department from our 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 our liquor inventory is shipped by the wholesalers or distributors directly to our stores. We significantly increase our inventory prior to Christmas, New Year's Eve and other holidays. Under Florida law, we are required to pay for our liquor purchases within ten days of delivery.

During the second quarter of our fiscal year, we contracted for the purchase of a new point of sale computer system for our package liquor stores, at a cost of approximately $237,000, including the cost to customize and test the new system, but excluding a surveillance camera system which we estimate will cost an additional $118,000. We also paid approximately $50,000 to purchase universal wireless hand-held scanners, which payment is in addition to the contracted amount. The testing of the new point of sale computer system was successfully completed during our fiscal year 2008, we used the wireless hand-held scanners to take our fiscal year end liquor inventory and the new point of sale computer system was installed during the first quarter of our fiscal year 2009. The package liquor stores began using the new point of sale computer system on November 2, 2008. The final cost of the new point of sale computer system, including hand-held, wireless scanners but excluding surveillance camera system, is approximately $287,000, of which approximately $266,000 has been paid to date.

Negotiations with food suppliers are conducted by our purchasing department at our corporate headquarters. We believe this ensures that the



best quality and prices will be available to each restaurant. Orders for food products are prepared by each restaurant's kitchen manager and reviewed by the restaurant's general manager before orders are placed. Food is delivered by the supplier directly to each restaurant. Orders are placed several times a week to ensure product freshness. Food inventory is primarily paid for monthly.

## Government Regulation

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

Alcoholic beverage control regulations require each of our restaurants and package liquor stores to obtain a license to sell alcoholic beverages from a state authority and in certain locations, county and municipal authorities.

In Florida, where all of our restaurants and package liquor stores are located, most of our 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 us allow the sale of liquor for on and off premises consumption. In Florida, the other liquor licenses held by us or limited partnerships of which we are 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 us allow the sale of liquor for on premises consumption only.

In the State of Georgia, where our adult entertainment club is located, 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 our 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 our revenue, the failure to receive or retain, or a delay in obtaining a liquor license in a particular location could adversely affect our operations in that location and could impair our ability to obtain licenses elsewhere.

During our fiscal years 2007 and 2008, no significant pending matters have been initiated concerning any of our licenses which might be expected to result in a revocation of a liquor license or other significant actions against us.

We are subject to "dram-shop" statutes due to our restaurant operations and club ownership. These statutes generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated individual. We carry liquor liability coverage as part of our existing comprehensive general liability insurance, which we believe is consistent with coverage carried by other entities in the restaurant industry. Although we are covered by insurance, a judgment against us under a dram-shop statute in excess of our liability coverage could have a material adverse effect on us.

Our operations are also subject to federal and state laws governing such matters as wages, working conditions, citizenship requirements and overtime. Some states, including Florida, have set minimum wage requirements higher than the federal level. Significant numbers of hourly personnel at our restaurants are paid at rates related to the Florida minimum wage and, accordingly, increases in the minimum wage will increase labor costs. We are also subject to the Americans With Disability Act of 1990 (ADA), which, among other things, may require certain renovations to our restaurants to meet federally mandated requirements. The cost of any such renovations is not expected to materially affect us.

We are not aware of any statute, ordinance, rule or regulation under present consideration which would significantly limit or restrict our business as now conducted. However, in view of the number of jurisdictions in which we conduct 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.

## General Liability Insurance

We have general liability insurance which incorporates a semi-self-insured plan under which we assume 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. Our insurance carrier is responsible for $1,000,000 coverage per occurrence above our self-insured deductible, up to a maximum aggregate of $2,000,000 per year. During our fiscal year 2007 and again in fiscal year 2008 we were able to purchase excess liability insurance at a reasonable premium, whereby our excess insurance carrier is responsible for $6,000,000 coverage above our 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, we are un-insured against liability claims in excess of $7,000,000 per occurrence and in the aggregate.



Our 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. We have established a select group of defense attorneys which we use in conjunction with this program. Under our current

liability insurance policy, any expense incurred by us in defending a claim, including adjusters and attorney's fees, are a part of our $50,000 self-insured retention.

An accrual for our 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 us in excess of our liability insurance coverage could have a materially adverse effect on the Company.

Property Insurance; Windstorm Insurance; Deductibles
----------------------------------------------------

For the policy year commencing December 30, 2008, our property insurance will provide for full insurance coverage for property losses, including those caused by windstorm, such as a hurricane, and will be the first year of our two (2) year property insurance policy with our insurance carrier. For property losses caused by windstorm, the property insurance will have deductibles of 5% per location, per occurrence. For all other property losses, the property insurance will have deductibles of $10,000 per location, per occurrence. Our insurance expense for the policy year commencing December 30, 2008, including insurance coverage for our consolidated limited partnerships, estimated at $294,000, decreased by approximately $140,000, (32%), due primarily to decreases in windstorm insurance coverage. Our insurance expense for the policy year commencing December 30, 2009 will remain the same excluding only increases and/or decreases in insurance expense due to changes in insurable values.

For the policy year which commenced December 30, 2007, our property insurance provided 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 made windstorm insurance coverage difficult to obtain and, where available, expensive to the point that full windstorm coverage for all locations was 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 had 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 provided 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 contained 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. We determined that only two roofs at our locations west of I-95 for which we and/or our limited partnerships are responsible, pre-date 2001 so the exposure due to the roof replacement limitation was not significant. The private insurance policy also provided 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 believed that the windstorm insurance coverage effective December 30, 2007 would have provided adequate insurance coverage for all locations in the event of a hurricane, but in the event that more than four (4) locations had been destroyed by a hurricane, thereby requiring total reconstruction, the

windstorm insurance coverage may have been inadequate and we and/or the limited partnership may have had to bear the cost of any uninsured expenses, which may have had a material adverse effect upon the financial condition and/or results of operations of the Company. Our insurance expense for the policy year commencing December 30, 2007, including insurance coverage for our consolidated limited partnerships, estimated at $434,000, decreased by approximately $153,000, (26%), due primarily to decreases in windstorm insurance coverage. During the policy year commencing December 30, 2007, neither we, nor any of our limited partnerships, made a claim against our property insurance.

## 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. We believe 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.

Our 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, we have had to adjust our pricing to stay competitive, including meeting all competitors' advertisements. Such practices will continue in the package liquor business. We believe that we have a competitive position in our market because of widespread consumer recognition of the "Big Daddy's" and "Flanigan's" names.

We have many well-established competitors, both nationally and locally owned, with substantially greater financial resources and a longer history of operations than we do. Their resources and market presence may provide advantages in marketing, purchasing and negotiating leases. We compete with other restaurant and retail establishments for sites and finding management personnel.

Our business is subject to seasonal effects, including that liquor purchases tend to increase during the holiday seasons.

## Trade Names

We operate our package liquor stores and restaurants under two service marks; "Big Daddy's Liquors" and "Flanigan's Seafood Bar and Grill", both of which are federally registered trademarks owned by us. Our right to the use of the "Big Daddy's" service mark is set forth under a consent decree of a



Federal Court entered into by us in settlement of federal trademark litigation. The consent decree and the settlement agreement allow us to continue to use and to expand our use of the "Big Daddy's" service mark in connection with limited food and liquor sales in Florida, while restricting the future sale of distilled spirits in Florida under the "Big Daddy's" name by the other party who has a federally registered service mark for "Big Daddy's" use in the restaurant business. The Federal Court retained jurisdiction to enforce the consent decree. We have acquired registered Federal trademarks on the principal register for our "Flanigan's" and "Flanigan's Seafood Bar and Grill" service marks.

The standard symbolic trademark associated with our facilities and operations 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 us.

## Employees

As of our fiscal year end 2008, we employed 1003 persons, of which 752 were full-time and 251 were part-time. Of these, 36 were employed at the corporate offices in administrative capacities and 5 were employed in maintenance. Of the remaining employees, 44 were employed in package liquor stores and 918 in restaurants.

None of our employees are represented by collective bargaining organizations. We consider our 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 | 44 | (1) |
| August Bucci | Chief Operating Officer and Executive Vice President | 64 | 2002 |
| Jeffrey D. Kastner | Chief Financial Officer General Counsel and Secretary | 55 | (2) |
| Jean Picard | Vice President of Package Liquor Store Operations | 70 | 2002 |

(1) Chairman of the Board of Directors, Chief Executive Officer since 2005; President since 2002.

(2) Chief Financial Officer since 2004; Secretary since 1995; and General Counsel since 1982.



## Flanigan's 401(k) Plan

Effective July 1, 2004, we 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. We are not required to contribute to the plan but may make discretionary profit sharing and/or matching contributions. During our fiscal years ended September 27, 2008 and September 29, 2007, the Board of Directors approved discretionary matching contributions totaling $30,000 and

$29,000, respectively.

## Item 1A Risk Factors

An investment in our common stock involves a high 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 our 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 our business, financial condition or results or operations. The occurrence of any of the following risks could harm our business, financial condition and results of operations. The trading price of our 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 our control, could cause actual results to differ materially from management's expectations.

### General Economic Factors May Adversely Affect Results of Operations

The disruption experienced in the United States and global credit markets during the second half of calendar year 2008 has adversely affected disposable consumer income and consumer confidence. Prolonged negative changes in domestic and global economic conditions or disruptions of either or both of the financial and credit markets may have a material adverse effect on our results of operations, financial condition and liquidity. At this time, it is unclear whether and to what extent the actions taken by the



United States government, including, without limitation, the passage of the Emergency Economic Stabilization Act of 2008 and other measures currently being implemented or contemplated, will mitigate the effect of the crisis. With respect to the Company, while we have no immediate need to access the credit markets in the foreseeable future, the impact of the current crisis on our ability to obtain financing in the future, if needed, and the cost and terms of the same is unclear. From an operating standpoint, the current financial crisis has resulted in reduced customer traffic in some or all of our restaurants and/or package liquor stores, reduced revenues and profitability, increased costs and imposed practical limits on our menu pricing. A continued decline in revenues and/or profitability may result in a deterioration of our financial position.

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

A significant component of our 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 we are unable to offset the increases with changes in menu prices, our results could be negatively affected.

Our Business Could Be Materially Adversely Affected If We Are Unable To Expand In A Timely And Profitable Manner

To grow successfully, we must open new restaurants on a timely and profitable basis. We have experienced delays in restaurant openings from time to time and may experience delays in the future. During fiscal year 2008, due to delays in the permitting process and construction, the Pembroke Pines, Florida and Davie, Florida restaurants were opened after substantial delays. Increases in labor and building material costs increased the cost of planned renovations to the Davie, Florida restaurant by approximately $1,000,000.

Our 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 or other means to raise capital, 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 we are unable to successfully manage these risks, we will face increased costs and lower than anticipated revenues which will materially adversely affect our business, financial condition, operating results and cash flow.



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

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

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

Our employees are essential to our operations and our ability to deliver an enjoyable dining experience to our customers. If we are 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, our results may be negatively affected. Additionally, competition for qualified employees could require us 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 our 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 our labor costs. In addition, since our business is labor-intensive, shortages in the labor pool or other inflationary pressure could increase labor costs, which could harm our financial performance.

## Due to Our Geographic Locations, Restaurants are Subject to Climate Conditions that Could Affect Operations

All but one (1) of our 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), our 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 our restaurants and package liquor stores, or may necessitate the closure of the stores and restaurants for a period of time. If customers are unable to visit our restaurants and/or package liquor stores, our sales and operating results may be negatively affected.



## Due to Our Geographic Locations, We May Not be Able to Acquire 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, we may not be able to acquire windstorm insurance coverage for our 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 we are unable to obtain windstorm insurance coverage or adequate windstorm insurance coverage at reasonable rates, then we 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 our financial condition and/or results of operations.

## Inability to Attract and Retain Customers Could Affect Results of Operations

We take pride in our ability to attract and retain customers, however, if we do not deliver an enjoyable dining experience for our customers, they may not return and results may be negatively affected.

## We May Face Liability Under Dram Shop Statutes

Our sale of alcoholic beverages subjects us to "dram shop" statutes. These statutes allow an injured person to recover damages from an establishment that served alcoholic beverages to an intoxicated person. If we receive a judgment substantially in excess of our insurance coverage, or if we fail to maintain our insurance coverage, our business, financial condition, operating results or cash flows could be materially and adversely affected. We currently have no "dram shop" claims. See "Item 1. Business--Government Regulation" for a discussion of the regulations with which we must comply.

## We May Face Instances of Food Borne Illness

During our fiscal year 2007, several nationally known restaurants experienced outbreaks of food poisoning believed to be caused by E.coli contained in fresh spinach, which is not included in any of the items on our menu. In years past, Asian and European countries experienced outbreaks of avian flu. Incidents of "mad cow" disease have occurred in Canadian and U.S. cattle herds. These problems, other food-borne illnesses (such as, hepatitis A, trichinosis or salmonella) and injuries caused by food tampering have in the past, and could in the future, adversely affect the price and availability of affected ingredients and cause changes in consumer preference. As a result, our sales could decline.

Instances of food-borne illnesses, real or perceived, whether at our restaurants or those of our competitors, could also result in negative publicity about us or the restaurant industry, which could adversely affect sales. If we react to negative publicity by changing our menu or other key aspects of the dining experience we offer, we may lose customers who do not accept those changes, and may not be able to attract enough new customers to

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produce the revenue needed to make our restaurants profitable. If our guests become ill from food-borne illnesses, we could be forced to temporarily close some restaurants. A decrease in guest traffic as a result of health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our restaurants, could materially harm our business.

## We Face Competition in the Restaurant and Liquor Industries, and If We are Unable to Compete Effectively, Our 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 emerging. We compete on quality, variety, value, service, price and location. If we are unable to compete effectively, our business, financial condition and results of operations will be materially adversely affected.

## Item 2. Properties

Our operations are conducted primarily on leased property with the exception of (i) our corporate headquarters, which is conducted in an office building and the land upon which it is built, which we purchased in December, 1999 and have occupied since April 2001; and (ii) our combination restaurant and package liquor store in Hallandale, Florida which operates in a building and the land upon which it is built, which we purchased in July, 2006.

All of our units require periodic refurbishing in order to remain competitive. We have budgeted $700,000 for our refurbishing program for fiscal year 2009. See Item 7, "Liquidity and Capital Resources" for discussion of the amounts spent in fiscal year 2008.

The following table summarizes information related to the properties upon which our operations are conducted:

| Name and Location | Square Footage | Seats | Franchised/ Owned by | Lease Terms |
| --- | --- | --- | --- | --- |

| Name and Location | Square Footage | Seats | Franchised/ Owned by | Lease Terms |
|---|---|---|---|---|
| Big Daddy's Liquors #4<br>Flanigan's Enterprises<br>Inc. (6)<br>7003 Taft Street<br>Hollywood, FL | 1,978 | N/A | Company | 3/1/02 to 2/28/27<br>and Options to<br>2/28/47 |
| Big Daddy's Liquors #7<br>Flanigan's Enterprises<br>Inc.<br>1550 W. 84th Street<br>Hialeah, FL | 1,450 | N/A | Company | 11/1/00 to 10/31/09<br>and Annual Options<br>to 10/31/15 |



| Name and Location | Square Footage | Seats | Franchised/ Owned by | Lease Terms |
|---|---|---|---|---|
| Big Daddy's Liquors #8<br>Flanigan's Enterprises<br>Inc.<br>959 State Road 84<br>Fort Lauderdale, FL | 1,942 | N/A | Company | 5/1/99 to 4/30/14 |
| Flanigan's Seafood<br>Bar and Grill #9<br>Flanigan's Enterprises<br>Inc.<br>1550 W. 84th Street<br>Hialeah, FL | 4,300 | 130 | Company | 10/1/71 to 12/31/09<br>New lease 1/1/10<br>to 12/31/14<br>Options to<br>12/31/24 |
| Flanigan's Legends<br>Seafood Bar and Grill<br>#11, 11 Corporation (1)<br>330 Southern Blvd.<br>W. Palm Beach, FL | 5,000 | 150 | Franchise | 1/4/00 to 1/3/20<br>Option to 1/3/25 |
| Flanigan's Seafood<br>Bar and Grill #12<br>Flanigan's Enterprises,<br>Inc. (11)<br>2405 Tenth Ave. North<br>Lake Worth, FL | 5,000 | 180 | Company | 11/15/92 to<br>11/15/09<br>Option to<br>11/15/10 |
| Flanigan's Seafood<br>Bar and Grill #14<br>Big Daddy's #14, Inc. (1)(2)(5)<br>2041 NE Second St.<br>Deerfield Beach, FL | 3,320 | 90 | Franchise | 6/1/79 to 6/1/09<br>Options to 6/1/19 |
| Flanigan's Seafood<br>Bar and Grill #15<br>CIC Investors #15 Ltd.(1)(2)<br>1479 E. Commercial Blvd.<br>Ft. Lauderdale, FL | 4,000 | 90 | Franchise/<br>Limited<br>Partnership | 3/2/76 to 8/31/11 |
| Flanigan's Seafood<br>Bar and Grill #18<br>Twenty Seven Birds | 4,300 | 100 | Franchise | 2/15/72 to 12/31/10<br>Options to<br>12/31/20 |

| | | | | |
|---|---|---|---|---|
| Corp. (1)(2)<br>2721 Bird Avenue<br>Miami, FL | | | | |
| Flanigan's Seafood<br>Bar and Grill #19<br>Flanigan's Enterprises<br>Inc.<br>2505 N. University Dr.<br>Hollywood, FL | 4,500 | 160 | Company | 3/1/72 to 12/31/10<br>Options to 12/31/20 |

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| Name and Location | Square Footage | Seats | Franchised/ Owned by | Lease Terms |
|---|---|---|---|---|
| Flanigan's Seafood<br>Bar and Grill #20<br>Flanigan's Enterprises<br>Inc.<br>13205 Biscayne Blvd.<br>North Miami, FL | 5,100 | 140 | Company | 7/15/68 to 12/31/09<br>Annual options<br>until the Company<br>fails to exercise<br>Additional Lease<br>5/1/69 to 12/31/09<br>Annual options<br>until the Company<br>fails to exercise |
| Flanigan's Seafood<br>Bar and Grill #22<br>Flanigan's Enterprises<br>Inc.<br>2600 W. Davie Blvd.<br>Ft. Lauderdale, FL | 4,100 | 200 | Company | 12/16/68 to<br>12/31/10<br>Options to 12/31/20<br>Option to purchase |
| Flanigan's Seafood<br>Bar and Grill #31<br>Flanigan's Enterprises<br>Inc. (7)<br>4 N. Federal Highway<br>Hallandale, FL | 4,600 | 150 | Company | Company Owned |
| Flanigan's Guppy's<br>Seafood Bar and Grill #33<br>Guppies, Inc. (1)(2)<br>45 S. Federal Highway<br>Boca Raton, FL | 4,620 | 130 | Franchise | 11/1/03 to 4/30/11 |
| Big Daddy's Liquors<br>#34, Flanigan's<br>Enterprises, Inc.<br>9494 Harding Ave.<br>Surfside, FL | 3,000 | N/A | Company | 5/29/97 to 5/28/12<br>Option to 5/28/17 |
| Flanigan's Seafood<br>Bar and Grill #40,<br>Flanigan's Enterprises<br>Inc.<br>5450 N. State Road 7<br>N. Lauderdale, FL | 4,600 | 140 | Company | 4/1/71 to 12/31/10<br>Option to 12/31/15 |

| | | | | |
|---|---|---|---|---|
| Piranha Pat's #43<br>BD 43 Corporation (1)(2)<br>2500 E. Atlantic Blvd.<br>Pompano Beach, FL | 4,500 | 90 | Franchise | 12/1/72 to 11/30/12<br>Option to 11/30/22 |



| Name and Location | Square Footage | Seats | Franchised/ Owned by | Lease Terms |
|---|---|---|---|---|
| Big Daddy's Liquors<br>#47, Flanigan's<br>Enterprises, Inc. (3)<br>8600 Biscayne Blvd.<br>Miami, FL | 6,000 | N/A | Company | 12/21/68 to 1/1/10<br>Options to 1/1/50 |
| Flanigan's Seafood<br>Bar and Grill #13,<br>CIC Investors #13, Ltd.<br>11415 S. Dixie Highway<br>Pinecrest, FL | 8,000 | 200 | Limited Partnership | 06/01/91 to 5/31/11<br>Options to 5/31/21 |
| Flanigan's Seafood<br>Bar and Grill #50,<br>CIC investors #50, Ltd.(8)<br>17185 Pines Boulevard<br>Pembroke Pines, FL | 4,000 | 200 | Limited Partnership | 10/24/06 to 10/23/11<br>Options to 10/23/26 |
| Flanigan's Seafood<br>Bar and Grill #55<br>CIC Investors #55, Ltd.(9)<br>2190 S. University Drive<br>Davie, Florida | 5,900 | 200 | Limited Partnership | 1/5/07 to 12/31/21<br>Options to 12/31/31 |
| Flanigan's Seafood<br>Bar and Grill #60<br>CIC Investors #60 Ltd.<br>9516 Harding Avenue<br>Surfside, FL | 6,800 | 200 | Limited Partnership | 8/1/97 to 12/31/11 |
| Flanigan's Seafood<br>Bar and Grill #65<br>CIC Investors #65, Ltd.<br>2335 State Road 7,Suite 100<br>Wellington, FL | 6,128 | 200 | Limited Partnership | 5/01/05 to 6/30/15<br>Options to 3/31/25 |
| Flanigan's Seafood<br>Bar and Grill #70<br>CIC Investors #70 Ltd.<br>12790 SW 88 St<br>Kendall, FL | 4,850 | 161 | Limited Partnership | 4/1/00 to 3/31/10<br>Options to 3/31/30 |
| Flanigan's Seafood<br>Bar and Grill #75<br>CIC Investors # 75 Ltd.<br>950 S. Federal Highway<br>Stuart, FL | 7,000 | 200 | Limited Partnership | 10/1/03 to 9/30/09<br>Options to 9/30/27 |

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

(1) Franchised by Company.

(2) Lease assigned to franchisee.

(3) We own 52% of the underlying leasehold from the unaffiliated third parties to whom the lease had been assigned and subleased back.

(4) Location managed by an unaffiliated third party.

(5) Effective December 1, 1998, we purchased the Management Agreement to operate the franchised restaurant for the franchisee.

(6) Ground lease executed by us on September 25, 2001. We constructed a building of 4,120 square feet, 1,978 square feet is used by us 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.

(7) During the fourth quarter of our fiscal year 2006, we purchased the real property and an assignment of a ground lease of this location pursuant to an option to purchase contained in the Sublease Agreement. During our fiscal year 2007, we purchased the real property subject to the ground lease.

(8) Restaurant opened for business on October 29, 2007.

(9) Restaurant opened for business on July 28, 2008.

(10) During the third quarter of our fiscal year 2006, our lease for this location expired. The unaffiliated third party entered into a new lease for the business premises effective May 1, 2006 and as of that date, we no longer have responsibility to pay any amounts under the lease.

(11) Effective March 4, 2007, we purchased the assets of the franchised restaurant from our franchisee, including the leasehold.

During our fiscal year 2007, we purchased the real property and building where our combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida (Store #31) operates. We paid $552,500 for the real property, which was partially financed with an advance of $250,000 on the mortgage procured by us during the fourth quarter of our fiscal year 2006 to purchase the limited liability company which owns the real property and the ground lease at this location, thereby raising the principal balance on such mortgage to $3,530,000. The mortgage amount bears interest at the rate of seven and one-half (7 1/2%) percent per annum, is amortized over twenty 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 due in October 2013.

During our fiscal year 2007, we purchased the real property located adjacent to the parking lot of our combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida, (Store #31). A residence, consisting of approximately 1,200 square feet, is located upon the property and as of the end of our fiscal year 2008 is leased to an unaffiliated third party. We paid $600,000 for this property, $450,000 of which we borrowed from an unaffiliated third party first mortgagee. The mortgage amount bears interest at the rate of ten (10%) percent per annum, is amortized over thirty (30) years with equal monthly payments of principal and interest, each in the amount of $3,949, with the entire principal balance and all accrued interest due in April, 2017.

During the third quarter of our fiscal year 2007, we sold the real property located at 732 - 734 N.E. 125th Street, North Miami, Florida (Store #27) and our rights under the liquor license for that location to the sublessee, an unaffiliated third party for $780,000. We purchased this real property during the first quarter of our fiscal year 2007 for a purchase price of $250,000 and realized a gain of $393,000 from the sale.

## Item 3. Legal Proceedings.

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

We own the building where our corporate offices are located. On April 16, 2001, we filed suit against the owner of the adjacent shopping center to determine our right to non-exclusive parking in the shopping center. During fiscal year 2007, the appellate court affirmed and upon re-hearing, again affirmed the granting of a summary judgment in favor of the shopping center. The seller from whom we purchased the building was named as a defendant in the lawsuit and is currently asserting a claim against us for reimbursement



of its attorneys' fees and costs resulting from the litigation. We disputed the seller's entitlement to reimbursement of its attorney's fees and costs, but during the first quarter of our fiscal year 2009, the appellate court affirmed the ruling against us by the trial court. We are disputing the amount of the seller's claim as excessive.

During fiscal year 2007, we and the limited partnership which owns the restaurant in Pinecrest, Florida filed suit against the limited partnership's landlord. We are the sole general partner and a 40% limited partner in this limited partnership. We are seeking to recover the cost of structural repairs to the business premises we paid, as we believe these structural repairs were the landlord's responsibility under the lease. The lawsuit, in addition to attempting to recover the amounts expended by us for structural repairs is also attempting to recover the rent paid by the limited partnership while the repairs were occurring. The claim also includes a request by the limited partnership for the court to determine if the limited partnership has the exclusive right to the use of the pylon sign in front of the business premises. The landlord filed its answer to the complaint denying liability for structural repairs to the business premises, denying any obligation to reimburse the limited partnership for any rent paid while structural repairs occurred and denying the limited partnership's right to use the pylon sign. The lawsuit is in the discovery stage.

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

None.

# PART II

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

Our common stock is traded on the American Stock Exchange under the symbol "BDL". As of the close of business on December 22, 2008, there were approximately 335 holders of record of our common stock. The following table sets forth the high and low sales price of a share of our common stock for each quarter in our fiscal years 2008 and 2007 as reported by the American Stock Exchange:

| | Fiscal 2008 | | Fiscal 2007 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | 9.75 | 7.65 | 11.75 | 8.91 |
| Second quarter | 9.90 | 6.56 | 12.30 | 10.28 |
| Third quarter | 8.54 | 6.35 | 12.00 | 10.17 |
| Fourth quarter | 6.85 | 5.09 | 11.30 | 8.65 |



We have determined that we must retain any earnings for the development and operation of our business and accordingly, we do not intend to pay any cash dividends in the foreseeable future.

ISSUER PURCHASES OF EQUITY SECURITIES

| | (c) Total Number of Shares (or | (d) Maximum Number (or Approximate Dollar Value) of |
|---|---|---|

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | Units) Purchased as Part of Publicly Announced Plans or Programs | Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| June 29, 2008 - August 2, 2008 | none | | | 92,600 |
| August 3, 2008 - August 30, 2008 | 600 | $ 6.60 | 600 | 92,000 |
| August 31, 2008 - September 27, 2008 | 900 | $ 6.1999 | 900 | 91,100 |
| Total as of September 27, 2008 | 1,500 | | 1,500 | 91,100 |

Purchase of Company Common Stock

Pursuant to a discretionary plan approved by the Board of Directors at its meeting on May 17, 2007, the Board of Directors authorized management to purchase up to 100,000 shares of our common stock. During our fiscal year 2008, we purchased 6,400 shares of our common stock for an aggregate purchase price of $48,935. Of the shares purchased, we purchased 1,200 shares of our common stock from the Joseph G. Flanigan Charitable Trust for $9,600 and 2,500 shares of our common stock from an employee for $20,000 in off market transactions, which reflected an actual per share purchase price which was equal to the average per share market price on the date of purchase. The balance of our common stock purchased, 2,700 shares, was purchased on the open market for an aggregate purchase price of $19,335. During our fiscal year 2007, we purchased 3,332 shares of our common stock for an aggregate purchase price of $36,000. Of the shares purchased, 2,500 shares were purchased from August Bucci, our Chief Operating Officer and Director, in an off market private transaction, at an aggregate purchase price of $28,000,



which reflected an actual per share purchase price which was less than the closing per share market price on the date of purchase. The balance of our common stock purchased, 832 shares, were purchased from a former employee, (332 shares), for $3,500, and from the Joseph G. Flanigan Charitable Trust, (500 shares), for $4,500 in off market transactions, which reflected an actual per share purchase price which was equal to the average per share market price on the date of purchase.

Information regarding our equity compensation plan(s) is set forth under page F-26 of this report.

Item 6. Selected Financial Data

As a Smaller Reporting Company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item 6.

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

Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under the captions "Risk Factors". In addition, the following discussion and analysis should be read in conjunction with the 2008 Consolidated Financial Statements and the related Notes to Consolidated Financial Statements included elsewhere in this report.

Overview

Financial Information Concerning Industry Segments

Our business is conducted principally in two segments: the restaurant segment and the package liquor store segment. Financial information broken into these two principal industry segments for the two fiscal years ended September 27, 2008 and September 29, 2007 is set forth in the consolidated financial statements which are attached hereto.

General

At September 27, 2008, we (i) operate 23 units, (excluding the adult entertainment club referenced in (ii) below), consisting of restaurants, package liquor stores and combination restaurants/package liquor stores that we either own or have operational control over and partial ownership in; (ii)



own but do not operate one adult entertainment club; and (iii) franchise an additional six units, consisting of two restaurants, (one of which we operate) and four combination restaurants/package liquor stores.

Franchised Units. In exchange for our providing management and related services to our franchisees and granting them the right to use our service marks "Flanigan's Seafood Bar and Grill" and "Big Daddy's Liquors", our franchisees (five of which are franchised to members of the family of our Chairman of the Board, officers and/or directors), are required to (i) pay to us a royalty equal to 1% of gross package liquor sales and 3% of gross restaurant sales; and (ii) make advertising expenditures equal to between 1.5% to 3% of all gross sales based upon our actual advertising costs allocated between stores, prorata, based upon gross sales.

Affiliated Limited Partnership Owned Units. We manage and control the operations of the ten restaurants owned by limited partnerships, except the Fort Lauderdale, Florida restaurant which is managed and controlled by a related franchisee. Accordingly, the results of operations of all limited partnership owned restaurants, except the Fort Lauderdale, Florida restaurant are consolidated with our results of operations for accounting purposes. The results of operations of the Fort Lauderdale, Florida restaurant are accounted for by us utilizing the equity method.

Results of Operations

REVENUES (in thousands):

| | Fifty Two Weeks Ended Sept. 27, 2008 | | Fifty Two Weeks Ended Sept. 29, 2007 | |
|---|---|---|---|---|
| Sales | | | | |
| Restaurant, food | $ 40,906 | 65.2% | $ 38,047 | 63.8% |
| Restaurant, bar | 9,494 | 15.1% | 8,764 | 14.7% |
| Package goods | 12,317 | 19.7% | 12,784 | 21.5% |
| Total | 62,717 | 100.0% | 59,595 | 100.0% |
| Franchise revenues | 1,066 | | 1,134 | |
| Owner's fee | 238 | | 203 | |
| Other operating income | 188 | | 169 | |
| Total Revenues | $ 64,209 | | $ 61,101 | |

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Comparison of Fiscal Years Ended September 27, 2008 and September 29, 2007

Revenues. Total revenue for our fiscal year 2008 increased $3,108,000 or 5.09% to $64,209,000 from $61,101,000 for our fiscal year 2007. This increase resulted from sales from three restaurant locations, the Davie, Florida limited partnership owned restaurant ($818,000) which opened for business on July 28, 2008, the Pembroke Pines, Florida limited partnership owned restaurant ($3,189,000) which opened for business on October 29, 2007, and the Company owned Lake Worth, Florida restaurant ($1,636,000), which was acquired on March 4, 2007, offset by a decline in same store restaurant food and bar sales ($1,872,000). Prior to March 4, 2007, the Lake Worth, Florida restaurant was franchised by the Company. The Lake Worth, Florida restaurant generated $1,018,000 of revenue during our fiscal year 2007. Without giving effect to the

revenue generated from the Pembroke Pines, Florida restaurant ($3,189,000), the Davie, Florida restaurant ($818,000) and the increased revenue generated from the Lake Worth, Florida restaurant, ($619,000), total revenue for our fiscal year 2008 would have decreased $1,518,000 or 2.48% to $59,583,000 from $61,101,000 for our fiscal year 2007. To a lesser extent, increased revenue is attributable to increased menu prices.

Restaurant Food Sales. Restaurant revenue generated from the sale of food at restaurants totaled $40,906,000 for our fiscal year 2008 as compared to $38,047,000 for our fiscal year 2007. This increase in restaurant food sales is due to sales from the Davie, Florida, Pembroke Pines, Florida and Lake Worth, Florida restaurants. The Davie, Florida, Pembroke Pines, Florida and Lake Worth, Florida restaurants generated $662,000, $2,677,000 and $1,225,000 of revenues, respectively, from the sale of food during our fiscal year 2008, while the Lake Worth, Florida restaurant generated $769,000 of revenue from the sale of food during our fiscal year 2007. Without giving effect to the revenue generated from the Davie, Florida restaurant ($662,000) and the Pembroke Pines, Florida restaurant ($2,677,000) and the increased revenue generated from the Lake Worth, Florida restaurant, ($456,000), from the sale of food during our fiscal year 2008, restaurant revenue generated from the sale of food during our fiscal year 2008 would have decreased $936,000 or 2.46% to $37,111,000 from $38,047,000 for our fiscal year 2007. Comparable weekly restaurant food sales (for restaurants open for all of our fiscal years 2008 and 2007, which consists of six restaurants owned by us and seven restaurants owned by affiliated limited partnerships) was $682,000 and $716,000 for our fiscal years 2008 and 2007, respectively, a decrease of 4.75%. Comparable weekly restaurant food sales for Company owned restaurants only was $299,000 and $297,000 for our fiscal years 2008 and 2007, respectively, an increase of 0.67%. Comparable weekly restaurant food sales for affiliated limited partnership owned restaurants only was $383,000 and $419,000 for our fiscal years 2008 and 2007, respectively, a decrease of

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8.59%. We anticipate that restaurant food sales will increase through our fiscal year 2009 due to, among other things, the operation of the Davie restaurant through our entire fiscal year 2009, offset by a decline in same store restaurant food sales.

Restaurant Bar Sales. Restaurant revenue generated from the sale of alcoholic beverages at restaurants totaled $9,494,000 for our fiscal year 2008 as compared to $8,764,000 for our fiscal year 2007. This increase of $730,000 in restaurant bar sales is due to sales from the Davie, Florida, Pembroke Pines, Florida and Lake Worth, Florida restaurants. The Davie, Florida, Pembroke Pines, Florida and Lake Worth, Florida restaurants generated $154,000, $511,000 and $288,000 of revenues, respectively, from restaurant bar sales during our fiscal year 2008, while the Lake Worth, Florida restaurant generated $172,000 of revenue from restaurant bar sales during our fiscal year 2007. Without giving effect to the revenue generated from the Davie, Florida restaurant ($154,000) and the Pembroke Pines, Florida restaurant ($511,000) and the increased revenue generated from the Lake Worth, Florida restaurant, ($116,000), from restaurant bar sales during our fiscal year 2008, revenue generated from restaurant bar sales during our fiscal year 2008 would have decreased $51,000 or 0.58% to $8,713,000 from $8,764,000 for our fiscal year 2007. Comparable weekly restaurant bar sales (for restaurants open for all of our fiscal years 2008 and 2007, which consists of six restaurants owned by us and seven restaurants owned by affiliated limited partnerships) was $164,000 and $166,000 for our fiscal years 2008 and 2007, respectively, a decrease of 1.20%. Comparable weekly restaurant bar sales for Company owned restaurants only was $68,000 and $66,000 for our fiscal years 2008 and 2007, respectively, an increase of 3.03%.

Comparable weekly restaurant bar sales for affiliated limited partnership owned restaurants only was $96,000 and $100,000 for our fiscal years 2008 and 2007, respectively, a decrease of 4.00%. We anticipate that restaurant bar sales will increase through our fiscal year 2009 due to, among other things, the operation of the Davie restaurant through our entire fiscal year 2009, offset by a decline in same store restaurant bar sales.

Package Liquor Store Sales. Revenue generated from sales of liquor and related items at package liquor stores totaled $12,317,000 for our fiscal year 2008 as compared to $12,784,000 for our fiscal year 2007, a decrease of $467,000. The weekly average of same store package liquor store sales, which includes all nine (9) Company owned package liquor stores, was $237,000 for our fiscal year 2008 as compared to $246,000 for our fiscal year 2007, a decrease of 3.66%. The decrease was primarily due to increased competition and package liquor store sales are expected to decline through our fiscal year 2009.

Operating Costs and Expenses. Operating costs and expenses, (consisting of cost of merchandise sold, payroll and related costs, occupancy costs and selling, general and administrative expenses), for our fiscal year 2008 increased $3,208,000 or 5.44% to $62,209,000 from $59,001,000 for our fiscal year 2007. The increase was primarily due to pre-opening expenses related to and the operation of the Davie, Florida restaurant and the operation of the Pembroke Pines, Florida and Lake Worth, Florida restaurants and to a lesser extent a general increase in food costs, offset by the decreased cost of package goods associated with the decline in our package store sales, a decrease in the cost of ribs, a decrease in repairs and maintenance to our units and actions taken by management to reduce and/or



control costs and expenses. We anticipate that our operating costs and expenses will continue to increase through our fiscal year 2009 due to, among other things, the operation of the Pembroke Pines, Florida and Davie, Florida restaurants for our entire fiscal year 2009 and an expected general increase in food costs, including an increase in the cost of ribs. Operating costs and expenses increased slightly as a percentage of total sales to approximately 96.89% in our fiscal year 2008 from 96.56% in our fiscal year 2007.

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

Restaurant Food and Bar Sales. Gross profit for food and bar sales for our fiscal year 2008 increased to $33,368,000 from $30,653,000 for our fiscal year 2007. Our gross profit margin for restaurant food and bar sales (calculated as gross profit reflected as a percentage of restaurant food and bar sales), was 66.21% for our fiscal year 2008 and 65.48% for our fiscal year 2007. This increase in gross profit for restaurant and bar sales for our fiscal year 2008 was primarily due to menu price increases instituted at the end of the first quarter of our fiscal year 2008 and a decrease in the cost of ribs during calendar year 2008.

Package Liquor Store Sales. Gross profit for package liquor store sales for our fiscal year 2008 increased to $3,661,000 from $3,584,000 for our fiscal year 2007, notwithstanding a decrease in our package store sales. Our gross profit margin (calculated as gross profit reflected as a percentage of package liquor store sales) for package liquor store sales was 29.72% for our fiscal year 2008 and 28.04% for our fiscal year 2007. The increase in our gross profit margin, (1.68%), was primarily due to the purchase of "close out" and inventory reduction merchandise from wholesalers. We anticipate the gross profit margin for package liquor store sales to remain constant throughout our fiscal year

2009.

Payroll and Related Costs. Payroll and related costs for our fiscal year 2008 increased $1,772,000 or 10.25% to $19,065,000 from $17,293,000 for our fiscal year 2007. This increase was primarily due to the operation of the Pembroke Pines, Florida, Davie, Florida and Lake Worth, Florida restaurants. We anticipate that our payroll and related costs will increase through our fiscal year 2009 due to, among other things, the operation of the Davie, Florida restaurant for our entire fiscal year 2009. Payroll and related costs as a percentage of total sales was 29.69% in our fiscal year 2008 and 28.30% of total sales in our fiscal year 2007. This increase as a percentage of sales was primarily due to the need to pay higher wages to attract and retain employees.

Occupancy Costs. Occupancy costs (consisting of rent, common area maintenance, repairs, real property taxes and amortization of leasehold purchases) for our fiscal year 2008 increased $110,000 or 2.84% to $3,977,000 from $3,867,000 for our fiscal year 2007. This increase is due to, (i) rental payments for our entire fiscal year 2008 at three additional restaurant locations (Pembroke Pines, Florida, - $175,000, Davie, Florida - $246,000, and Lake Worth, Florida - $98,000)= $519,000, as compared to rental payments for a part of our fiscal year 2007 at the same three additional restaurant locations, (Pembroke Pines, Florida - $18,000 (non-cash pre-opening rent) and $125,000 (cash pre-opening rent), Davie, Florida - $138,000 and Lake Worth, Florida - $61,000)= $342,000; and (ii) increases in real property taxes and

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common area maintenance, which generally includes a pro-rata share of property insurance for units located within shopping centers, offset by a general decrease in repairs and maintenance. We anticipate that our occupancy costs will stabilize through our fiscal year 2009 with no rental payments for additional restaurant locations being developed by the Company.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (consisting of general corporate expenses, including but not limited to advertising, insurance, professional costs, clerical and administrative overhead) for our fiscal year 2008 increased $996,000 or 7.98% to $13,479,000 from $12,483,000 for our fiscal year 2007. Selling, general and administrative expenses increased as a percentage of total sales in our fiscal year 2008 to approximately 20.99% as compared to 20.43% in our fiscal year 2007. This increase is due primarily to the operation of the Pembroke Pines, Florida, Davie, Florida and Lake Worth, Florida restaurants and an overall increase in expenses. We anticipate that our selling, general and administrative expenses will increase throughout our fiscal year 2009 due to, among other things, the operation of our Pembroke Pines, Florida and Davie, Florida restaurants for our entire fiscal year 2009 and an overall increase in expenses, which will not be offset in their entirety by increased advertising credits and rebates from our food distributor.

Depreciation. Depreciation for our fiscal year 2008 increased $182,000 or 9.34% to $2,131,000 from $1,949,000 for our fiscal year 2007. As a percentage of total sales, depreciation expense was relatively constant over both periods, representing 3.32% of revenue for our fiscal year 2008 and 3.19% of revenue for our fiscal year 2007.

Other Income and Expense. Other income and expenses was an expense of $392,000 for our fiscal year 2008 as compared to an expense of $35,000 for our fiscal year 2007. Other income and expense for our fiscal year 2007 includes a gain of $393,000 from the sale of real property. Other income and expense for our fiscal year 2008 includes interest expense of $495,000, as compared to

interest expense of $508,000 for our fiscal year 2007. The decrease in interest expense is attributable to a lower variable interest rate on our line of credit during our fiscal year 2008.

Interest Expense, Net. Interest expense for our fiscal year 2008 decreased $13,000 to $495,000 from $508,000 for our fiscal year 2007. This decrease is attributable to a lower variable interest rate on our line of credit during our fiscal year 2008.

Net Income. Net income for our fiscal year 2008 decreased $210,000 or 16.57% to $1,057,000 from $1,267,000 for our fiscal year 2007. As a percentage of sales, net income for our fiscal year 2008 is 1.65%, as compared to 2.07% in our fiscal year 2007. Our net income during our fiscal year 2007 includes a gain of $393,000 from the sale of real property, offset by our share of the pre-opening expenses associated with the Pembroke Pines, Florida restaurant, ($341,000), and the Davie, Florida restaurant, ($174,000), which adversely affected net income. Without giving effect to the sale of the real property, we would have generated net income of $1,007,000 for our fiscal year 2007, which as a percentage of sales is 1.65%. Without giving effect to the sale of the real property for our fiscal year 2007, net income for our fiscal year 2008, as a percentage of sales, was equal to that for our fiscal year 2007 primarily due to higher gross profit in both our restaurant and package liquor store divisions, improved control



over expenses, offset by our share of the pre-opening expenses associated with the Davie, Florida restaurant, ($632,000).

New Limited Partnership Restaurants
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The limited partnership owned restaurant located in Pembroke Pines, Florida opened for business during the first quarter of our fiscal year 2008 (October 29, 2007) and the limited partnership owned restaurant located in Davie, Florida opened for business during the fourth quarter of our fiscal year 2008 (July 28, 2008). As new restaurants open, our income from operations will be adversely affected due to our obligation to fund pre-opening costs, including but not limited to pre-opening rent for the new locations. During our fiscal year 2008, we recognized non-cash pre-opening rent in the approximate amount of $6,000 and recognized cash pre-opening rent in the approximate amount of $12,000 for the Pembroke Pines, Florida restaurant. During our fiscal year 2008, we also paid and expensed pre-opening rent in the approximate amount of $246,000 for the Davie, Florida restaurant, which is the full rent provided in the lease. During our fiscal year 2007, we recognized non-cash pre-opening rent in the approximate amount of $18,000 and recognized cash pre-opening rent in the approximate amount of $119,000 for the Pembroke Pines, Florida restaurant and pre-opening rent in the approximate amount of $104,000 for the Davie, Florida restaurant, which is the full rent provided in the lease. We are recognizing rent expense on a straight line basis over the term of the lease.

During our fiscal year 2008, the limited partnership restaurant in Davie, Florida reported losses of $632,000 primarily due to pre-opening costs, thus contributing to a reduction in the operating income for our fiscal year 2008. During our fiscal year 2007, the limited partnership restaurants in Pembroke Pines, Florida and Davie, Florida reported losses of $341,000 and $174,000, respectively, primarily due to pre-opening costs, thus contributing to a reduction in operating income for our fiscal year 2007.

Until we find a new restaurant location, our income from operations will

not be adversely affected by pre-opening costs. During our fiscal year 2009, we do not expect our income from operations to be materially adversely affected by pre-opening costs for new restaurant locations. Management believes that the Company's current cash availability from its line of credit and expected cash from operations will be sufficient to fund operations and capital expenditures for at least the next twelve months.

Trends

During the next twelve months, we expect continued increases in aggregate restaurant sales as compared to prior periods due primarily to the restaurant in Davie, Florida being open for the entire twelve month period. We expect same store restaurant food and bar sales to decline over the next twelve month period due primarily to the current domestic and global financial crisis. We expect package liquor store sales to decrease due primarily to increased competition. We expect higher food costs and higher overall expenses, which will adversely affect our net income. In December, 2007, we raised menu prices to offset the higher food costs and overall



expenses. We plan to limit menu price increases as long as possible while maintaining our high quality of food and service and without reducing our food portions. We have increased our advertising to attract customers. As a last resort, we will raise menu prices whenever necessary and wherever competitively possible.

We continue to search for new locations to open restaurants and thereby expand our business, but we are now looking for locations that will not require an extensive and costly renovation. Any new locations will likely be opened using our limited partnership ownership model.

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

Liquidity and Capital Resources

We fund our operations through cash from operations and borrowings from our line of credit. As of September 27, 2008, we had cash of approximately $3,244,000, an increase of $1,021,000 from our cash balance of $2,223,000 as of September 29, 2007. The increase in cash as of September 27, 2008 was primarily from our operations due to minimal demand upon our cash flow for extraordinary items.

Cash Flows

| | Fiscal Years | |
|---|---|---|
| | 2008 | 2007 |
| | (in thousands) | |
| Net cash and cash equivalents provided by operating activities | $ 3,747 | $ 2,138 |
| Net cash and cash equivalents used in | | |

| | | |
|---|---|---|
| investing activities | (3,967) | (2,761) |
| Net cash and cash equivalents provided by financing activities | 1,241 | 1,148 |
| Net increase in cash and equivalents | 1,021 | 525 |
| Cash and equivalents, beginning of year | 2,223 | 1,698 |
| Cash and equivalents, end of year | $ 3,244 | $ 2,223 |

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Capital Expenditures

In addition to using cash for our operating expenses, we use cash to fund the development and construction of new restaurants and secondarily to fund capitalized property improvement for our existing restaurants. We acquired property and equipment of $4,337,000, (of which $26,000 was financed and $593,000 of which was purchase deposits transferred to property and equipment), during our fiscal year 2008, including $358,000 for renovations to one (1) existing Company owned restaurant, as compared to $4,886,000 (of which $700,000 was financed) during our fiscal year 2007, which included $1,402,500 for the purchase of real property and $615,000 for renovations to three (3) existing Company owned restaurants. The additions to fixed assets during our fiscal year 2008 included most of the renovations to the business premises of the Davie, Florida restaurant, while the additions to fixed assets during our fiscal year 2007 included most of the renovations to the business premises of the Pembroke Pines, Florida restaurant and the purchase of leasehold interests of our Lake Worth, Florida, Pembroke Pines, Florida and Davie, Florida restaurants.

In addition, during our fiscal year 2008, we purchased a 4% interest in the underlying lease which we sublease for our El Portal, Florida location, ($27,000), from an unrelated sublessor, the cost of which is being amortized as additional rent over the life of the lease, including the first ten (10) year renewal option. During our fiscal year 2007, we purchased leasehold interests for the Pembroke Pines, Florida ($305,000), Davie, Florida ($650,000) and Lake Worth, Florida ($45,000) locations, the cost of which is being amortized as additional rent over the life of the lease. The purchase of the leasehold interest for the Lake Worth, Florida location occurred as a part of the purchase of the franchise restaurant.

All of our owned units require periodic refurbishing in order to remain competitive. The cost of this refurbishment in our fiscal year 2008 was $358,000. We anticipate the cost of this refurbishment in our fiscal year 2009 will be approximately $700,000, which funds will be provided from operations.

Long Term Debt

As of the end of our fiscal year 2008, we had long term debt, (including our line of credit), of $6,514,000, as compared to $6,080,000 as of the end of our fiscal year 2007.

As of the end of our fiscal year 2008, the amount outstanding under our

line of credit from an unaffiliated financial institution was $1,562,000. Subsequent to the end of our fiscal year 2008, we changed our primary banking relationship to another unaffiliated financial institution, which includes a new line of credit of $2,500,000. The outstanding balance on our line of credit of $1,586,000 as of November 30, 2008, bears interest at BBA LIBOR 1 month rate, plus 2.25%, (4.20625% as of December 7, 2008), with monthly payments of interest only and the unpaid principal balance and all accrued interest due in full on October 7, 2009. We granted our lender a security interest in substantially all of our assets and a second mortgage on our corporate offices as collateral to secure our repayment obligations under our credit line.



We repaid long term debt, including auto loans, mortgages and capital lease obligations in the amount of $192,000 and $213,000 in our fiscal years 2008 and 2007, respectively.

We repaid our line of credit in the amount of $-0- and $1,000,000 in our fiscal years 2008 and 2007 respectively. During our fiscal year 2008, we borrowed $600,000 on our line of credit to pay the balance of the purchase price for our limited partnership units in the limited partnership which owns the Davie, Florida location. During our fiscal year 2007, we borrowed $1,200,000 on our line of credit, primarily to advance the purchase price for the limited partnership which owns the Pembroke Pines, Florida restaurant to close on the purchase of its restaurant location ($340,000) and the limited partnership which owns the Davie, Florida restaurant to close on the purchase of its restaurant location ($650,000).

## Purchase Commitments

In order to fix the cost and ensure adequate supply of baby back ribs for our restaurants, on November 26, 2008, we entered into a purchase agreement with our rib supplier, whereby we agreed to purchase approximately $3,800,000 of baby back ribs during calendar year 2009 from this vendor at a fixed cost. While we anticipate purchasing all of our rib supply from this vendor, we believe there are several other alternative vendors available, if needed.

## Purchase of Limited Partnership Interests

During our fiscal year 2008, we purchased from two separate limited partners (neither of whom are officers, directors or family members of officers or directors) limited partnership interests of varying amounts (0.13% to 2.67%) in nine (9) limited partnerships which own restaurants for an aggregate purchase price of $125,000.

## Working capital

The table below summarizes our current assets, current liabilities and working capital for our fiscal years 2008 and 2007:

| (in thousands) | Sept. 27 2008 | Sept. 29 2007 |
| --- | --- | --- |
| Current assets | $6,852 | $6,322 |
| Current liabilities | 4,504 | 4,567 |

| | | |
|---|---|---|
| Working capital | 2,348 | 1,755 |

Working capital as of September 27, 2008 increased by $593,000 or 33.79% from working capital as of September 29, 2007. Our working capital improved during our fiscal year 2008 due to minimal demand upon our cash flow



for extraordinary items during the fiscal year. During our fiscal year 2007, the limited partnership which owns the Pembroke Pines, Florida restaurant completed its private offering and reimbursed us $300,000 for advances we made to the limited partnership for pre-opening expenses. In addition, during our fiscal year 2007, we sold the real property located at 732 - 734 N.E. 125th Street, North Miami, Florida, realizing net sale proceeds in the approximate amount of $763,000. Our working capital during our fiscal year 2007 was adversely affected by advances made by us to the limited partnership owning the Davie, Florida location, ($1,085,000), all of which ultimately became a part of our investment when the limited partnership completed its private offering during our fiscal year 2008.

While there can be no assurance due to, among other things, unanticipated expenses or unanticipated decline in revenues, or both, we believe that positive cash flow from operations will adequately fund operations, debt reductions and planned capital expenditures in our fiscal year 2009. We also anticipate that during our fiscal year 2009, working capital will be affected by the payment of the balance for the purchase of a new point of sale system for our package liquor stores ($21,000) and a surveillance camera system ($118,000).

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of the end of our fiscal year 2008 or our fiscal year 2007.

## Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to our 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. We believe that the following critical accounting policies are subject to estimates and judgments used in the preparation of our 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. We estimate 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
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As of September 27, 2008, we operate nine (9) restaurants as general partner of the limited partnerships that own the operations of these restaurants. Additionally, we expect that any expansion which takes place in opening new restaurants will also result in us operating the restaurants as general partner. In addition to the general partnership interest we also purchase limited partnership units ranging from 13% to 48% of the total units outstanding. As a result of these controlling interests, we consolidate the operations of these limited partnerships with ours despite the fact that we do 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
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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 our carryforwards refer to Note 9 to the consolidated financial statements for our fiscal year 2008.

On September 30, 2007, we adopted the provisions of Financial Accounting Standard Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). We previously had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, Accounting for Contingencies. As required by FIN 48, which clarifies FASB Statement No. 109, Accounting for Income Taxes, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied FIN 48 to tax positions for all open tax years. We had no material unrecognized tax benefits and no adjustments to our financial position, results of operations or cash flows were required. We do not expect that unrecognized tax benefits will increase within the next twelve months. We recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

During the first quarter of our fiscal year 2008, the corporate income tax returns for our fiscal years ending September 29, 2007 and September 30,



2006 were audited by the Internal Revenue Service. As a result of the audit, we

paid additional corporate income tax of $6,227 and $2,637 for our fiscal years ending September 29, 2007 and September 30, 2006, respectively. The effects of the Internal Revenue Service adjustments were considered in the computation of our income tax provision for our fiscal year ended September 27, 2008.

## Other Matters

### Impact of Inflation

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

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not ordinarily hold market risk sensitive instruments for trading purposes. As of September 27, 2008 and September 29, 2007, we held no equity securities.

### Interest Rate Risk

At September 27, 2008, borrowings under our line of credit bear interest at a variable annual rate equal to the prime rate of interest. Subsequent to the end of our fiscal year 2008, we changed our primary banking relationship to another unaffiliated financial institution, which includes a new line of credit. The outstanding balance on our line of credit bears interest at BBA LIBOR 1 month rate, plus 2.25%. Increases in interest rates may have a material affect upon results of operations, depending upon the outstanding principal balance on our line of credit from time to time.

At September 27, 2008, our cash resources earn interest at variable rates. Accordingly, our return on these funds is affected by fluctuations in interest rates

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

## Item 8. Financial Statements and Supplementary Data.

Our Financial Statements and supplementary data are on pages F-1 through F-6.



## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None

## Item 9A(T). Controls and Procedures.

## Disclosure Controls and Procedures

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

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

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

## Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f).

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Base on this evaluation, we believe that, as of September 27, 2008, our internal control over financial reporting was effective based on those criteria.

This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by the Company's



registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this report.

## Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is incorporated by reference to our Proxy Statement for our 2009 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission by January 26, 2009.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to our Proxy Statement for our 2009 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission by January 26, 2009.

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

The information required by Item 12 is incorporated by reference to our Proxy Statement for our 2009 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission by January 26, 2009.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by Item 13 is incorporated by reference to our Proxy Statement for our 2009 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission by January 26, 2009.



Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated by reference to our Proxy Statement for our 2009 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission by January 26, 2009.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements

See Item 8, "Financial Statements and Supplementary Data" for Financial Statements included with this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules

The following financial statement schedules are filed as a part of this

report:

1. Financial Statements:

   - Report of Independent Registered Public Accounting Firm
   - Consolidated Balance Sheets as of September 27, 2008 and September 29, 2007
   - Consolidated Statements of Income for the years ended September 27, 2008 and September 29, 2007
   - Consolidated Statements of Stockholders' Equity for the years ended September 27, 2008 and September 29, 2007
   - Consolidated Statements of Cash Flow for the years ended September 27, 2008 and September 29, 2007
   - Notes to Consolidated Financial Statements

2. Financial Statements Schedule:

   - Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is not applicable or the information is included in the consolidated financial statements or the Notes thereto.

3. Exhibits

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

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| Exhibit Number | Exhibit Description | Incorporated by Reference Form | Date | Number | Filed Herewit |
|---|---|---|---|---|---|
| 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 | SB-2 | 5/5/87 | 2 | |
| 3 | Restated Articles of Incorporation, adopted January 9, 1984 | 10-K | 12/29/02 | 3 | |
| 10(a)(1) | Employment Agreement with Joseph G. Flanigan* | DEF14A | 1/27/1988 | 10(a)(1) | |
| 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-K | | 10(a)(1) | |

| | | | | |
|---|---|---|---|---|
| 10(c) | Consent Agreement regarding the Company's Trademark Litigation | 8-K | 4/10/1985 | 10(c) |
| 10(d) | King of Prussia(#850)Partnership Agreement* | 8-K | 4/10/1985 | 10(d) |
| 10(o) | Management Agreement for Atlanta, Georgia, (#600)* | 10-K | 10/3/1992 | 10(o) |
| 10(p) | Settlement Agreement with Former Vice Chairman of the Board of Directors (re #5) | 10-K | 10/3/1992 | 10(p) |
| 10(q) | Hardware Purchase Agreement and Software License Agreement for restaurant point of sale system. | 10-KSB | 10/2/1993 | 10(q) |
| 10(a)(3) | Key Employee Incentive Stock Option Plan | DEF14A | 1/26/1994 | 10(a)(3) |
| 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.* | 10-KSB | 9/30/1995 | 10(r) |
| 10(s) | Form of Franchise Agreement between Flanigan's Enterprises, Inc. and Franchisees.* | 10-KSB | 9/30/1995 | 10(s) |

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| | | | | |
|---|---|---|---|---|
| 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. * | 10-KSB | 9/28/1996 | 10(t) |
| 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. * | 10-KSB | 9/27/1997 | 10(u) |
| 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. * | 10-KSB | 9/27/1997 | 10(v) |
| 10(w) | Stipulated Agreed Order of Dismissal upon Mediation with former franchisee. | 10-KSB | 9/27/1997 | 10(w) |
| 10(x) | Limited Partnership Agreement of CIC Investors #70, Ltd. dated February 1999 between Flanigan's Enterprises, Inc. as | 10-KSB | 10/02/1999 | 10(x) |

| | | | | |
|---|---|---|---|---|
| | General Partner and numerous limited partners, including Flanigan's Enterprises, Inc. as limited partner owning forty percent of the limited partnership. * | | | |
| 10(y) | Limited Partnership Agreement of CIC Investors #80, Ltd., dated May 2001, between Flanigan's Enterprises, Inc. as General Partner and numerous limited | 10-KSB | 9/29/2001 | 10(y) |



| | | | | |
|---|---|---|---|---|
| | partners, including Flanigan's Enterprises, Inc., as limited partner owning twenty five percent of the limited partnership. * | | | |
| 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. * | 10-KSB | 9/29/2001 | 10(z) |
| 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. * | 10-K | 9/27/03 | 10(aa) |
| 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. * | 10-K | 10/2/2004 | 10(bb) |
| 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. * | 10-K | 9/30/2006 | 10(cc) |
| 10(dd) | Limited Partnership Agreement of CIC Investors #50, Ltd., dated October 17, | 10-K | 9/29/2007 | 10(dd) |

| | | | | | |
|---|---|---|---|---|---|
| | 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 sixteen percent of the limited partnership. * | | | | |
| 10(ee) | Limited Partnership Agreement of CIC Investors #55, Ltd., dated December 12, 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 | 10-K | 9/29/2007 | 10(ee) | |



| | | | | | |
|---|---|---|---|---|---|
| | forty eight percent of the limited partnership. * | | | | |
| 13 | Registrant's Form 10-K constitutes the Annual Report to Shareholders for the fiscal year ended September 27, 2008. | | | | X |
| 21(a) | Company's subsidiaries are set forth in this Annual Report on Form 10-K. | | | | X |
| 31.1 | Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 of Chief Executive Officer. | | | | X |
| 31.2 | Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 of Chief Financial Officer. | | | | X |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer. | | | | X |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer. | | | | X |

* Compensatory plan or arrangement.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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

Flanigan's Enterprises, Inc.
Registrant

By: /s/ JAMES G. FLANIGAN II
------------------------
JAMES G. FLANIGAN II
Chief Executive Officer
Date: 12/22/08

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ JAMES G. FLANIGAN II<br>------------------------<br>James G. Flanigan II | Chairman of the Board, Chief Executor Officer, and Director | Date: 12/22/08 |
| /s/ JEFFREY D. KASTNER<br>----------------------<br>Jeffrey D. Kastner | Chief Financial Officer Secretary and Director | Date: 12/22/08 |
| /s/ MICHAEL ROBERTS<br>----------------------<br>MICHAEL ROBERTS | Director | Date: 12/22/08 |
| /s/ GERMAINE M. BELL<br>----------------------<br>Germaine M. Bell | Director | Date: 12/22/08 |
| /s/ BARBARA J. KRONK<br>----------------------<br>Barbara J. Kronk | Director | Date: 12/22/08 |
| /s/ AUGIE BUCCI<br>----------------------<br>Augie Bucci | Chief Operating Officer and Director | Date: 12/22/08 |
| /s/ MICHAEL B. FLANIGAN<br>-----------------------<br>Michael B. Flanigan | Director | Date: 12/22/08 |
| /s/ PATRICK J. FLANIGAN<br>-----------------------<br>Patrick J. Flanigan | Director | Date: 12/22/08 |
| /s/ CHRISTOPHER O'NEIL<br>-----------------------<br>Christopher O'Neil | Director | Date: 12/22/08 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS


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| Statements of Stockholders' Equity | F-4 |
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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 27, 2008 and September 29, 2007 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. Flanigan's Enterprises, Inc.'s management is responsible for these consolidated financial statements. 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 27, 2008 and September 29, 2007, and the consolidated results of their operations and their

cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

RACHLIN LLP

Fort Lauderdale, Florida
December 22, 2008

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 3,244,000 | $ 2,223,000 |
| Note receivable, current maturities, net | 16,000 | 14,000 |
| Prepaid income taxes | 176,000 | -- |
| Due from franchisees | 351,000 | 735,000 |
| Other receivables | 107,000 | 137,000 |
| Inventories | 2,168,000 | 2,165,000 |
| Prepaid expenses | 547,000 | 840,000 |
| Deferred tax assets | 243,000 | 208,000 |
| Total current assets | 6,852,000 | 6,322,000 |
| Property and Equipment, Net | 21,601,000 | 19,410,000 |
| Investment in Limited Partnership | 151,000 | 142,000 |
| Other Assets: | | |
| Liquor licenses, net | 345,000 | 347,000 |
| Note receivable, net | 28,000 | 44,000 |
| Deferred tax assets | 729,000 | 492,000 |
| Leasehold purchases, net | 1,880,000 | 2,085,000 |
| Other | 987,000 | 1,495,000 |
| Total other assets | 3,969,000 | 4,463,000 |
| Total assets | $ 32,573,000 | $ 30,337,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 4,040,000 | $ 3,666,000 |
| Income taxes payable | -- | 331,000 |
| Due to franchisees | 223,000 | 312,000 |
| Current portion of long-term debt | 188,000 | 196,000 |
| Deferred revenues | 34,000 | 45,000 |
| Deferred rent | 19,000 | 17,000 |

| | | |
|---|---|---|
| Total current liabilities | 4,504,000 | 4,567,000 |
| Long-Term Debt, Net of Current Maturities | 4,764,000 | 4,922,000 |
| Line of Credit | 1,562,000 | 962,000 |
| Deferred Rent, Net of Current Portion | 214,000 | 232,000 |
| Minority Interests in Equity of Consolidated Limited Partnerships | 8,437,000 | 7,570,000 |
| 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 | 6,240,000 | 6,240,000 |
| Retained earnings | 12,388,000 | 11,331,000 |
| Treasury stock, at cost, 2,313,309 and 2,306,909 shares | (5,956,000) | (5,907,000) |
| Total stockholders' equity | 13,092,000 | 12,084,000 |
| Total liabilities and stockholders' equity | $ 32,573,000 | $ 30,337,000 |

See notes to consolidated financial statements.

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

| | 2008 |
|---|---|
| Revenues: | |
| Restaurant food sales | $ 40,906,000 |
| Restaurant beverage sales | 9,494,000 |
| Package goods sales | 12,317,000 |
| Franchise-related revenues | 1,066,000 |
| Owner's fee | 238,000 |
| Other operating income | 188,000 |
| | 64,209,000 |
| Costs and Expenses: | |
| Cost of merchandise sold: | |
| Restaurants and lounges | 17,032,000 |
| Package goods | 8,656,000 |
| Payroll and related costs | 19,065,000 |
| Occupancy costs | 3,977,000 |
| Selling, general and administrative expenses | 13,479,000 |
| | 62,209,000 |
| Income from Operations | 2,000,000 |

| | |
|---|---|
| Other Income (Expense): | |
| Interest expense | (495,000) |
| Interest and other income | 82,000 |
| Limited partnership income | 21,000 |
| Gain on sale of property and equipment | -- |
| | (392,000) |
| Income Before Provision for Income Taxes and Minority Interests in Earnings of Consolidated Limited Partnerships | 1,608,000 |
| Provision for Income Taxes | (564,000) |
| Minority interests in (earnings) losses of consolidated limited partnerships | 13,000 |
| Net Income | $ 1,057,000 |
| Net Income Per Common Share: | |
| Basic | $ 0.56 |
| Diluted | $ 0.56 |
| Weighted Average Shares and Equivalent Shares Outstanding: | |
| Basic | 1,888,000 |
| Diluted | 1,889,000 |

See notes to consolidated financial statements.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Treasu |
|---|---|---|---|---|---|
| | Shares | Amount | | | Shares |
| Balance, September 30, 2006 | 4,197,642 | $ 420,000 | $ 6,203,000 | $ 10,064,000 | 2,313,087 |
| Year Ended September 29, 2007: | | | | | |
| Net income | -- | -- | -- | 1,267,000 | -- |
| Purchase of treasury stock | -- | -- | -- | -- | 3,332 |
| Exchange of shares- exercise of stock options | -- | -- | 37,000 | -- | (9,510) |
| Balance, September 29, 2007 | 4,197,642 | 420,000 | 6,240,000 | 11,331,000 | 2,306,909 |

| | | | | | |
|---|---|---|---|---|---|
| Year Ended September 27, 2008: | | | | | |
| Net income | -- | -- | -- | 1,057,000 | -- |
| Purchase of treasury stock | -- | -- | -- | -- | 6,400 |
| Balance, September 27, 2008 | 4,197,642 | $ 420,000 | $ 6,240,000 | $ 12,388,000 | 2,313,309 |

See notes to consolidated financial statements.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

| | 20 |
|---|---|
| Cash Flows from Operating Activities: | |
| Net income | $ 1,05 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: | |
| Depreciation and amortization | 2,13 |
| Amortization of leasehold purchases | 23 |
| Gain on sale of property and equipment | |
| Loss on abandonment of property and equipment | 4 |
| Deferred income taxes | (27 |
| Deferred rent | (1 |
| Minority interests in earnings (losses) of consolidated limited partnerships | (1 |
| Income from unconsolidated limited partnership | (2 |
| Recognition of deferred revenues | (1 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Due from franchisees | 38 |
| Other receivables | 3 |
| Prepaid income taxes | (17 |
| Inventories | ( |
| Prepaid expenses | 29 |
| Other assets | 13 |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | 37 |
| Income taxes payable | (33 |
| Due to franchisees | (8 |
| Net cash and cash equivalents provided by operating activities | 3,74 |
| Cash Flows from Investing Activities: | |
| Collections on note receivable | 1 |
| Purchase of property and equipment | (3,69 |
| Deposits on property and equipment | (29 |
| Purchase of leasehold | (2 |
| Purchase of assets of franchised restaurant | |
| Proceeds from sale of fixed assets | 1 |
| Proceeds from sale of marketable securities | |

| | |
|---|---|
| Distributions from unconsolidated limited partnership | 1 |
| Proceeds from insurance settlement | |
| Net cash and cash equivalents used in investing activities | (3,96 |
| **Cash Flows from Financing Activities:** | |
| Payments of long-term debt | (19 |
| Payment of line of credit | |
| Proceeds from long-term debt | |
| Proceeds from line of credit | 60 |
| Purchase of minority limited partnership interest | (12 |
| Purchase of treasury stock | (4 |
| Distributions to limited partnerships' minority partners | (1,01 |
| Proceeds from limited partnership interests | 2,02 |
| Proceeds from exercise of stock options | |
| Net cash and cash equivalents provided by financing activities | 1,24 |
| Net Increase in Cash and Cash Equivalents | 1,02 |
| Cash and Cash Equivalents, Beginning | 2,22 |
| Cash and Cash Equivalents, Ending | $ 3,24 |

See notes to consolidated financial statements.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

| | 2008 | 2 |
|---|---|---|
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid during the year for: | | |
| Interest | $ 495,000 | $ 5 |
| Income taxes | $1,432,000 | $ 6 |
| **Non-Cash Financing and Investing Activities:** | | |
| Purchase of vehicles in exchange for debt | $ 26,000 | $ |
| Purchase deposits transferred to property and equipment | $ 593,000 | $ |
| Purchase of real property in exchange for debt | $ -- | $ 7 |

* exclusive of the Company's investment in the limited partnership owning the restaurant in Davie, Florida of $1,850,000 in fiscal year 2008 and exclusive of the Company's investment in the limited partnership owning the restaurant in Pembroke Pines, Florida of $380,000 in fiscal year 2007.

See notes to consolidated financial statements.

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FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Capitalization

The Company was incorporated in 1959 and 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 our total revenue. At September 27, 2008, we (i) operated 23 units, (excluding the adult entertainment club referenced in (ii) below), consisting of restaurants, package liquor stores and combination restaurants/package liquor stores that we either own or have operational control over and partial ownership in; (ii) own but do not operate one adult entertainment club; and (iii) franchise an additional six units, consisting of two restaurants, (one of which we operate) and four combination restaurants/package liquor stores. With the exception of one restaurant we operate under the name "The Whale's Rib", and in which we do not have an ownership interest, all of the restaurants operate under our service mark "Flanigan's Seafood Bar and Grill" and all of the package liquor stores operate under our service mark "Big Daddy's Liquors".

The Company's Articles of Incorporation, as amended, authorize us to issue and have outstanding at any one time 5,000,000 shares of common stock at a par value of $0.10 per share.

We operate under a 52-53 week year ending the Saturday closest to September 30. Our fiscal years 2008 and 2007 are each comprised of a 52-week period.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our subsidiaries, all of which are wholly owned, and the accounts of the nine limited partnerships in which we act as general partner and have 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. We are 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 our consolidated financial statements in the period they are determined to be necessary. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, they may ultimately differ from actual results.





NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Inventories

Our 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), our liquor licenses are not being amortized, but are tested annually for impairment (see Note 8).

Property and Equipment

Our property and equipment are stated at cost. We capitalize expenditures for major improvements and depreciation commences when the assets are placed in service. We record depreciation on a straight-line basis over the estimated useful lives of the respective assets. We charge maintenance and repairs, which do not improve or extend the life of the respective assets, to expense as incurred. When we dispose of assets, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Our estimated useful lives range from three to five years for vehicles, and three to seven years for furniture and equipment. Leasehold improvements are currently being amortized over the shorter of the life of the lease or 20 years. The building and building improvements of our corporate offices in Fort Lauderdale, Florida and our combination restaurant and package liquor store in Hallandale, Florida, both of which we own, are being depreciated over forty years.

Leasehold Purchases

Our purchase of an existing restaurant location usually includes a lease to the business premises. As a result, a portion of the

purchase price is allocated to the leasehold interest, which we refer to as a leasehold purchase. We capitalize the cost of the leasehold purchase and amortization commences upon our assumption of the lease. We amortize leasehold purchases over the remaining term of the lease up to a maximum of 15 years.





NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Limited Partnerships

We use the consolidation method of accounting when we have a controlling interest in other companies and limited partnerships. We use the equity method of accounting when we have an interest between twenty to fifty percent in other companies and limited partnerships, but do not exercise control. Under the equity method, our original investments are recorded at cost and are adjusted for our share of undistributed earnings or losses. All significant intercompany profits are eliminated.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, other receivables and note receivable.

Cash and Cash Equivalents

We maintain deposit balances with financial institutions which from time to time, may exceed the federally insured limits. At September 27, 2008, we had approximately $3,121,000 on deposit that was in excess of the federal depository insurance coverage limit of $100,000 per entity. The FDIC insurance limits were increased to $250,000 on October 10, 2008 and will stay in effect until December 31, 2009. We have not experienced any losses in such accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents despite the current banking environment.

Note Receivable

Our note receivable arises primarily from the sale of operating assets, including liquor licenses. Generally, those assets serve as collateral for the receivable. We believe that the collateral, coupled with the credit standing of the purchasers, limits these risks.

Major Supplier

Throughout our fiscal years 2008 and 2007, we purchased substantially all of our food products from one major supplier pursuant to a master distribution agreement which entitled us to receive certain purchase discounts, rebates and advertising allowances. We believe that several other alternative vendors are

available, if necessary.

Revenue Recognition

We record revenues from normal recurring sales upon the sale of food and beverages and the





NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

sale of package liquor products. We report our sales net of sales tax. Continuing royalties, which are a percentage of net sales of franchised stores, are accrued as income when earned.

Pre-opening Costs

Our 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 our high standards for quality are met), rent and promotional costs. We expense pre-opening costs as incurred. During our fiscal year 2008, the limited partnership restaurant in Davie, Florida reported losses of $632,000, primarily due to pre-opening costs. During our fiscal year 2007, the limited partnership restaurants in Pembroke Pines, Florida and Davie, Florida reported losses of $341,000 and $174,000, respectively, primarily due to pre-opening costs.

Advertising Costs

Our advertising costs are expensed as incurred. Advertising costs incurred during our fiscal years ended September 27, 2008 and September 29, 2007 were approximately $217,000 and $234,000 respectively.

Fair Value of Financial Instruments

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

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

Income Taxes

We account for our 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.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

On January 1, 2006, we 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. We 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, is recognized in the consolidated financial statements over the vesting period. This application requires us to record compensation expense for all awards granted to employees and directors after the adoption date and for the unvested portion of awards that were outstanding at the date of adoption. We had no unvested stock options as of January 1, 2006 and granted no stock options subsequent thereto, including our fiscal years 2008 and 2007, so there is no impact of SFAS No. 123R on our consolidated financial statements for our fiscal years 2008 or 2007.

Long-Lived Assets

We continually evaluate whether events and circumstances have occurred that may warrant revision of the estimated life of our intangible and other long-lived assets or whether the remaining balance of our 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, we 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.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161") to enhance disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for all financial statements issued in fiscal years and interim periods beginning after November 15, 2008 and early application is encouraged. SFAS 161 also encourages but does not require comparative disclosures for earlier periods at initial adoption. As we do not currently engage in derivative transactions or hedging activities, we do not anticipate any significant financial statement disclosure impact as a result of our evaluation of SFAS 161.





NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 ("FSP 157-2"). FSP 157-2 delays the implementation of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This statement defers the effective date to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, which is fiscal year 2010 for the Company.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for the fiscal years beginning after December 15, 2008 and will be adopted by us in the first quarter of our fiscal year 2010. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our consolidated results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests (NCI) and classified as a component of equity. This new consolidation method will significantly change the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008 (our fiscal year 2010). We have not yet determined the impact of SFAS 160 on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "Fair Value Option for

Financial Assets and Liabilities" which permits an entity to choose to measure many financial instruments and certain other items at fair value. The standard contains an amendment to SFAS 115 pertaining to available-for-sale and trading securities. The objective of the standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect the adoption of Statement 159 at the beginning of fiscal year 2009 to have a material impact on our consolidated results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires





## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Recently Issued Accounting Pronouncements (Continued)

expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (our fiscal year 2009), although early adoption is permitted. In September 2007, the FASB provided a one-year deferral for the implementation of SFAS 157 only with regard to nonfinancial assets and liabilities. We do not anticipate any significant financial statement impact as a result of SFAS 157.

## NOTE 2. ACQUISITIONS

### Purchase of Real Property

On April 2, 2007, we purchased the real property located adjacent to the parking lot of our combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida, (Store #31). We paid $600,000 for this property, $450,000 of which we borrowed from an unaffiliated third party first mortgagee. We fully attributed the purchase price to the fair value of the land and building.

On October 20, 2006, we purchased the real property and building where our combination restaurant and package liquor store located at 4 North Federal Highway, Hallandale, Florida (Store #31) operates. We paid $552,500 for the real property, which was partially financed with an advance of $250,000 on the mortgage procured by us during

the fourth quarter of our fiscal year 2006 to purchase the limited liability company which owns the real property and the ground lease at this location, thereby raising the principal balance on such mortgage to $3,530,000.

Purchase of Franchised Unit

On March 4, 2007, we acquired the assets of a franchised restaurant located in Lake Worth, Florida for $100,000 of total consideration. We have included the assets acquired in our consolidated financial statements as of that date. We allocated the purchase price $55,000 to the value of property and equipment and $45,000 to the value of the leasehold purchased.

Purchase of Leasehold Interests

On March 31, 2008, we purchased a four (4%) percent interest, as lessee, in the Ninety Nine Year Ground Lease, and a four (4%) percent interest, as sublessor, in the Sublease Agreement by which we sublease the real property and improvements for our package liquor store and warehouse located at 8600 Biscayne Boulevard, El Portal, Miami-Dade County, Florida, (Store #47) for $27,000. With this purchase, we increased our ownership interest in the Ninety-Nine Year Ground Lease and the Sublease Agreement to fifty two (52%) percent.





NOTE 2. ACQUISITIONS

Purchase of Limited Partnership Interests

During fiscal year 2008, we purchased from a limited partner (not a family member of any of our directors or officers) limited partnership interests of 0.76% to 2.67% in our limited partnerships, with the only exception being CIC Investors #55, Ltd. for $120,000. We also purchased from another limited partner (not a family member of any of our directors or officers) a limited partnership interest of 0.13% in our limited partnership which owns the Davie, Florida restaurant, for $5,000.

NOTE 3. DISPOSITIONS

On April 23, 2007, we sold our real property located at 732-734 N.E. 125th Street, North Miami, Florida and our rights under the liquor license for that location for $780,000. We purchased this real property during the first quarter of our fiscal year 2007 for a purchase price of $250,000 and realized a gain of $393,000 for the sale.

NOTE 4. NOTE RECEIVABLE

Our note receivable consists of the following at September 27, 2008 and September 29, 2007:

| | 2008 | 2007 |
|---|---|---|
| Note receivable from related party, bearing interest at 14% and due in installments through August, 2011 | 44,000 | 58,000 |
| Current portion | 16,000 | 14,000 |
| | $ 28,000 | $ 44,000 |

The remaining note receivable represents the amount owed to us for a store operation which was sold. Since we did not receive a significant amount of cash on the sale, a pro rata portion of the gain is deferred and recognized only as payments on the note are received by us. We recognized approximately $11,000 and $9,000 of deferred gain on collections of such note receivable during our fiscal years ended September 27, 2008 and September 29, 2007, respectively.

Future scheduled payments on our note receivable at September 27, 2008 consists of the following:

| | |
|---|---|
| 2009 | $ 16,000 |
| 2010 | 19,000 |
| 2011 | 9,000 |
| | $ 44,000 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 5. PROPERTY AND EQUIPMENT

| | 2008 | 2007 |
|---|---|---|
| Furniture and equipment | $ 9,184,000 | $ 7,909,000 |
| Leasehold improvements | 18,195,000 | 15,413,000 |
| Land and land improvements | 5,104,000 | 5,104,000 |
| Building and improvements | 2,385,000 | 2,383,000 |
| Vehicles | 685,000 | 670,000 |
| | 35,553,000 | 31,479,000 |
| Less accumulated depreciation and amortization | 13,952,000 | 12,069,000 |
| | $ 21,601,000 | $ 19,410,000 |

Depreciation expense for the fiscal years ended September 27, 2008 and September 29, 2007 was approximately $2,057,000 and $1,949,000,

respectively.

NOTE 6. LEASEHOLD PURCHASES

| | 2008 | 2007 |
|---|---|---|
| Leasehold purchases, at cost | $ 2,938,000 | $ 2,911,000 |
| Less accumulated amortization | 1,058,000 | 826,000 |
| | $ 1,880,000 | $ 2,085,000 |

NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS

We have invested with others, (some of whom are or are affiliated with our officers and directors), in ten limited partnerships which own and operate ten South Florida based restaurants under our service mark "Flanigan's Seafood Bar and Grill". In addition to being a limited partner in these limited partnerships, we are the sole general partner of all of these limited partnerships and manage and control the operations of the restaurants except for the restaurant located in Fort Lauderdale, Florida where we only hold a limited partnership interest.

Generally, the terms of the limited partnership agreements provide that until the investors' cash investment in a limited partnership (including any cash invested by us) is returned in full, the limited partnership distributes to the investors annually out of available cash from the operation of the restaurant, as a return of capital, up to 25% of the cash invested in the limited partnership, with no management fee paid to us. Any available cash in excess of the 25% of the cash invested in the limited partnership distributed to the investors annually, is paid one-half (1/2) to us as a management fee and one-half (1/2) to the investors, (including us), prorata based upon the investors' investment, as a return of capital. Once all of the investors, (including us), have received, in full, amounts equal to their cash invested, an annual management fee becomes payable to us equal to one-half (1/2) of cash available to be





NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

distributed, with the other one half (1/2) of available cash distributed to the investors (including us), as a profit distribution, pro-rata based upon the investors' investment.

As of September 27, 2008, limited partnerships owning three (3) restaurants, (Surfside, Florida, Kendall, Florida and Miami, Florida locations), have returned all cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for

distribution by the limited partnership. In addition to our receipt of distributable amounts from the limited partnerships, we receive a fee equal to 3% of gross sales for use of our "Flanigan's Seafood Bar and Grill" service mark, which use is authorized while we act as general partner only. This 3% fee is "earned" when sales are made by the limited partnerships and is paid weekly, in arrears. We anticipate that we will continue to form limited partnerships to raise funds to own and operate restaurants under our service mark "Flanigan's Seafood Bar and Grill" using the same or substantially similar financial arrangement.

Surfside, Florida

We are the sole general partner and a 45% limited partner in this limited partnership which has owned and operated a restaurant in Surfside, Florida under our "Flanigan's Seafood Bar and Grill" service mark since March 6, 1998. 34.9% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by the limited partnership. This entity is consolidated in the accompanying financial statements.

Kendall, Florida

We are the sole general partner and a 41% limited partner in this limited partnership which has owned and operated a restaurant in Kendall, Florida under our "Flanigan's Seafood Bar and Grill" service mark since April 4, 2000. 29.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by the limited partnership. This entity is consolidated in the accompanying financial statements.

West Miami, Florida

We are the sole general partner and a 27% limited partner in this limited partnership which has owned and operated a restaurant in West Miami, Florida under our "Flanigan's Seafood Bar and Grill" service mark since October 11, 2001. 34.2% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family





NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

West Miami, Florida (Continued)

members. As of the end of our fiscal year 2008, this limited

partnership has returned to its investors all of their initial cash invested and we receive an annual management fee equal to one-half (1/2) of the cash available for distribution by the limited partnership. This entity is consolidated in the accompanying financial statements.

Weston, Florida

We are the sole general partner and a 30% limited partner in this limited partnership which has owned and operated a restaurant in Weston, Florida under our "Flanigan's Seafood Bar and Grill" service mark since January 20, 2003. 35.1% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 73.75% of their initial cash invested. During the first quarter of our fiscal year 2009, no distribution was made to limited partners as this limited partnership had limited cash flow generated by this restaurant. The limited cash flow was primarily attributable to increased competition, which we expect to continue into our fiscal year 2009. This entity is consolidated in the accompanying financial statements.

Stuart, Florida

We are the sole general partner and a 13% limited partner in this limited partnership which has owned and operated a restaurant in a Howard Johnson's Hotel in Stuart, Florida under our "Flanigan's Seafood Bar and Grill" service mark since January 11, 2004. 31.0% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 22.5% of their initial cash invested. During our fiscal year 2006, the limited partners of this limited partnership only received three (3) quarterly distributions due to the limited cash flow generated by the restaurant.

During our fiscal years 2007 and 2008, no distributions were made to limited partners as this limited partnership had net losses of $98,000 and $8,000 from the operation of the restaurant during the fiscal years 2007 and 2008, respectively, before depreciation and amortization, and owed the Company $203,000 and $216,000, as of the end of our fiscal years 2007 and 2008, respectively, in advances made to meet operating losses. This entity is consolidated in the accompanying financial statements and therefore the intercompany transactions are eliminated.

Wellington, Florida

We are the sole general partner and a 28% limited partner in this limited partnership which has owned and operated a restaurant in Wellington, Florida under our "Flanigan's Seafood

NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

Wellington, Florida (Continued)

Bar and Grill" service mark since May 27, 2005. 25.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 41% of their initial cash invested. This entity is consolidated in the accompanying financial statements.

Pinecrest, Florida

We are the sole general partner and 40% limited partner in this limited partnership which has owned and operated a restaurant in Pinecrest, Florida under our "Flanigan's Seafood Bar and Grill" service mark since August 14, 2006. 15.0% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 18% of their initial cash invested. This entity is consolidated in the accompanying financial statements.

Davie, Florida

We are the sole general partner and a 48% limited partner in this limited partnership which has owned and operated a restaurant in Davie, Florida under our "Flanigan's Seafood Bar and Grill" service mark since July 28, 2008. 9.7% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has yet to return to its investors any of their initial cash invested. This entity is consolidated in the accompanying financial statements.

Pembroke Pines, Florida

We are the sole general partner and a 17% limited partner in this limited partnership which has owned and operated a restaurant in Pembroke Pines, Florida under our "Flanigan's Seafood Bar and Grill" service mark since October 29, 2007. 17.9% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. As of the end of our fiscal year 2008, this limited partnership has returned to its investors approximately 7.0% of their initial cash invested. This entity is consolidated in the accompanying financial statements.

Fort Lauderdale, Florida

A corporation, owned by one of our directors, acts as sole general partner of a limited partnership which has owned and operated a restaurant in Fort Lauderdale, Florida under our "Flanigan's Seafood Bar and Grill" service mark since April 1, 1997. We have a 25% limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

Fort Lauderdale, Florida (Continued)

partnership interest in this limited partnership. 58.8% of the remaining limited partnership interest is owned by persons who are either our officers, directors or their family members. We have a franchise arrangement with this limited partnership. For accounting purposes, we do not consolidate the operations of this limited partnership into our operations. This entity is reported using the equity method in the accompanying consolidated financial statements.

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

| | 2008 | 2007 |
|---|---|---|
| Financial Position: | | |
| Current assets | $ 75,000 | $ 49,000 |
| Non-current assets | 549,000 | 615,000 |
| Current liabilities | 87,000 | 152,000 |
| Non-current liabilities | 44,000 | 58,000 |
| Operating Results: | | |
| Revenues | 2,287,000 | 2,286,000 |
| Gross profit | 1,525,000 | 1,507,000 |
| Net income | 86,000 | 5,000 |

NOTE 8. LIQUOR LICENSES

Liquor licenses are tested for impairment in September of each of our fiscal years. The fair value of liquor licenses at September 27, 2008, exceeded the carrying amount; therefore, we recognized no impairment loss. 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 27, 2008 and September 29, 2007, the total carrying amount of our liquor licenses was approximately $345,000 and $347,000, respectively. We acquired no liquor licenses in fiscal year 2008 which required capitalization.

NOTE 9. INCOME TAXES

The components of our provision for income taxes for our fiscal years 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Current: | | |
| Federal | $ 687,000 | $ 664,000 |
| State | 148,000 | 150,000 |
| | 835,000 | 814,000 |
| Deferred: | | |
| Federal | (245,000) | (99,000) |
| State | (26,000) | (17,000) |
| | (271,000) | (116,000) |

| | | |
|---|---|---|
| | $ 564,000 | $ 698,000 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 9. INCOME TAXES (Continued)

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

| | 2008 | 2007 |
|---|---|---|
| Tax provision at the statutory rate of 34% | $ 563,000 | $ 749,000 |
| State income taxes, net of federal income tax | 72,000 | 88,000 |
| Tax benefit of tip credit generated | (160,000) | (141,000) |
| Sec. 179 phase out and other permanent items | 85,000 | -- |
| Other | 4,000 | 2,000 |
| | $ 564,000 | $ 698,000 |

We have 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, bonuses accrued for book purposes but not paid within two and a half months for tax purposes, the capitalization of certain inventory costs for tax purposes not recognized for financial reporting purposes and the recognition of revenue from gift cards not redeemed within twelve months of issuance.

The components of our deferred tax assets at September 27, 2008 and September 29, 2007 were as follows:

| | 2008 | 2007 |
|---|---|---|
| Current: | | |
| Reversal of aged payables | $ 27,000 | $ 27,000 |
| Capitalized inventory costs | 22,000 | 22,000 |
| Accrued bonuses | 142,000 | 135,000 |
| Accruals for potential uninsured claims | 43,000 | 24,000 |
| Gift cards | 9,000 | -- |
| | $243,000 | $208,000 |
| Long-Term: | | |
| Book/tax differences in property and equipment | $421,000 | $321,000 |
| Limited partnership investments | 308,000 | 171,000 |
| | $729,000 | $492,000 |

Internal Revenue Service Audit of Company's Corporate Income Tax Return for the Fiscal Years Ending September 29, 2007 and September 30, 2006

During our fiscal year 2008, the corporate income tax returns for our fiscal years ending September 29, 2007 and September 30, 2006 were audited by the Internal Revenue Service. We agreed that the sums of $6,227 and $2,637 were due as additional corporate income tax



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 9. INCOME TAXES (Continued)

for our fiscal years ending September 29, 2007 and September 30, 2006, respectively. The effects of the settlement of the audits were considered in the computation of tax amounts for our fiscal year ended September 27, 2008.

NOTE 10. DEBT

Long-Term Debt

| | 2008 | 2007 |
|---|---|---|
| Mortgage payable to bank, secured by land and building, bearing interest at 7.5%; payable in monthly installments of principal and interest of $28,600, maturing in October, 2013. | $3,363,000 | $3,446,000 |
| Mortgage payable to bank, secured by first mortgage on a building, bearing interest at 7.25%; payable in monthly installments of principal and interest of approximately $8,000, maturing in December, 2013. | 962,000 | 985,000 |
| Mortgage payable, secured by land and building, bearing interest at 10.0%; payable in monthly installments of principal and interest of $3,949, maturing in May, 2017. | 446,000 | 449,000 |
| 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. | 122,000 | 161,000 |
| Other | 59,000 | 77,000 |
| | 4,952,000 | 5,118,000 |
| Less current portion | 188,000 | 196,000 |
| | $4,764,000 | $4,922,000 |

Long-term debt at September 27, 2008 matures as follows:

| | |
|---|---|
| 2009 | $ 188,000 |
| 2010 | 236,000 |
| 2011 | 157,000 |
| 2012 | 154,000 |
| 2013 | 166,000 |
| Thereafter | 4,051,000 |
| | $4,952,000 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 10. DEBT (Continued)

Line of Credit

As of the end of our fiscal year 2008, we have a $2,650,000 line of credit, which has a variable interest rate at prime, (5.0% at September 27, 2008), and is payable in monthly installments of interest only on the outstanding principal balance, with a maturity in the third quarter of our fiscal year 2009. The original agreement provides for a security interest in substantially all of our assets. We granted our lender a second mortgage on our corporate offices as additional collateral for the increase in the line of credit in the first quarter of our fiscal year 2007. As of September 27, 2008, our line of credit had a principal balance of $1,562,000, as compared to $962,000 as of September 29, 2007.

Subsequent to the end of our fiscal year 2008, we changed our primary banking relationship to another unaffiliated financial institution, which includes a new $2,500,000 line of credit. The outstanding balance on our line of credit of $1,586,000 as of November 30, 2008, bears interest at BBA LIBOR 1 month rate, plus 2.25%, (4.20625% as of December 7, 2008), with monthly payments of interest only and the unpaid principal balance and all accrued interest due in full on October 7, 2009. We granted our lender a security interest in substantially all of our assets and a second mortgage on our corporate offices as collateral to secure our repayment obligations under our credit line.

NOTE 11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Legal Matters

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

Leases

We lease a substantial portion of the land and buildings used in our operations under leases with initial terms expiring between 2009 and 2049. Renewal options are available on many of our leases. Most of our leases are fixed rent agreements. For two Company-owned restaurant/package liquor store combination units, lease rentals are subject to sales overrides ranging from 1.75% to 4% of annual sales in excess of established amounts. For four limited partnership restaurants, lease rentals are subject to sales overrides ranging from 2% to 5.5% of annual sales in excess of the base rent paid. We recognize rent expense on a straight line basis over the term of the lease. Certain of our leases are subject to fair market rental appraisals at the time of renewal. We have the option to purchase the real property which we lease for the operation of our Fort Lauderdale, Florida restaurant.



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Leases (Continued)

We have a ground lease for an out parcel in Hollywood, Florida where we constructed a building on the out parcel, one-half (1/2) of which is used by us for the operation of a package liquor store and the other one-half (1/2) of which is subleased to an unrelated third party as retail space. Rent for the retail space commenced January 1, 2005, and we generated $49,000 and $46,000 of revenue from this source during our fiscal years ended September 27, 2008 and September 29, 2007, respectively. Total future minimum sublease payments under the non-cancelable sublease are $340,000, including Florida sales tax (currently 6%).

Future minimum lease payments, including Florida sales tax (currently 6% to 7%) under our non-cancelable operating leases as of September 27, 2008 are as follows:

| | |
|---|---|
| 2009 | $ 2,485,000 |
| 2010 | 2,169,000 |
| 2011 | 1,721,000 |
| 2012 | 1,209,000 |
| 2013 | 1,094,000 |
| Thereafter | 5,335,000 |
| Total | $14,013,000 |

Total rent expense for all of our operating leases was approximately $2,697,000 and $2,625,000 in our fiscal years 2008 and 2007, respectively, and is included in "Occupancy costs" in our accompanying consolidated statements of income. This total rent expense is comprised of the following:

| | 2008 | 2007 |
|---|---|---|
| Minimum Base Rent | $ 2,301,000 | $ 2,259,000 |

| | | |
|---|---|---|
| Contingent Percentage Rent | 396,000 | 366,000 |
| Total | $ 2,697,000 | $ 2,625,000 |

We guarantee various leases for franchisees and stores sold in prior years. Remaining rental payments required under these leases total approximately $2,475,000.

Purchase Commitments

Effective November 24, 2008, we entered into a purchase agreement with our rib supplier. The terms of the agreement stipulate that we will purchase approximately $3,800,000 of baby back ribs during the 2009 calendar year at a fixed cost. We contract for the purchase of baby back ribs on an annual basis to fix the cost and ensure adequate supply for the calendar year. We purchase all of our rib supply from this vendor, but we believe that several other alternative vendors are available, if necessary.





NOTE 11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Franchise Program

At September 27, 2008 and September 29, 2007, we were the franchisor of six units under franchise agreements. On March 4, 2007, we acquired the assets of the franchised restaurant in Lake Worth, Florida. Of the six franchised stores, four are combination restaurant/package liquor stores and two are restaurants. Four franchised stores are owned and operated by related parties. Under the franchise agreements, we provide guidance, advice and management assistance to the franchisees. In addition and for an additional annual fee of approximately $25,000, we also act as fiscal agent for the franchisees whereby we collect all revenues and pay all expenses and distributions. We also, from time to time, advance 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. We also agree to sponsor and manage cooperative buying groups on behalf of the franchisees for the purchase of inventory. The franchise agreements provide for royalties to us of approximately 3% of gross restaurant sales and 1% of gross package liquor sales. We are not currently offering or accepting new franchises.

Employment Agreement/Bonuses

As of September 27, 2008 and September 29, 2007, we had no employment agreements.

Our Board of Directors approved an annual performance bonus, with 14% of the corporate pre-tax net income, plus or minus non-recurring items, but 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 our fiscal years 2008 and 2007 amounted to approximately $492,000 and $438,000, respectively.

Our Board of Directors also approved an annual performance bonus, with 5% of the pre-tax net income before depreciation and amortization from our restaurants and our 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 our fiscal years 2008 and 2007 amounted to approximately $357,000 and $323,000, respectively.

Our 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. During the second quarter of fiscal year 2008, our Board of Directors modified the annual performance bonus, eliminating the 2% of the pre-tax net income before depreciation and amortization from the package liquor stores paid to the package store supervisor. Bonuses for our fiscal years 2008 and 2007 amounted to approximately $22,000 and $36,000, respectively.





NOTE 11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (Continued)

Management Agreements

Atlanta, Georgia

We own, but do not operate, an adult entertainment nightclub located in Atlanta, Georgia which operates under the name "Mardi Gras". We have a management agreement with an unaffiliated third party to manage the club. Effective May 1, 2006, the unaffiliated third party that manages the club became obligated under a new lease for the business premises where the club operates for a period of ten (10) years, with one (1) ten (10) year renewal option and as of such date we are no longer obligated under the lease. Under our management agreement, the unaffiliated third party management firm is obligated to pay us an annual amount, paid monthly, equal to the greater of $150,000 or ten (10%) percent of gross sales from the club, offset by one-half (1/2) of any rental increases, provided our fees will never be less than $150,000 per year. For our fiscal years ended September 27, 2008 and September 29, 2007, we generated $238,000 and $203,000 of revenue, respectively, from the operation of the club.

Deerfield Beach, Florida

Since January, 2006, we have managed "The Whale's Rib", a casual dining restaurant located in Deerfield Beach, Florida, pursuant to management agreement. We paid $500,000 in exchange

for our rights to manage this restaurant. The management agreement is being amortized straight line over the life of the initial term of the agreement, ten (10) years. The restaurant is owned by a third party unaffiliated with us. In exchange for providing management, bookkeeping and related services, we receive one-half (1/2) of the net profit, if any, from the operation of the restaurant. The term of the management agreement, which commenced January 9, 2006, is for ten (10) years, with four (4) five (5) year renewal options in favor of the owner of the restaurant. For our fiscal years ended September 27, 2008 and September 29, 2007, we generated $150,000 and $160,000 of revenue, respectively, from providing these management services.

NOTE 12. COMMON STOCK

Treasury Stock

Purchase of Common Shares

Pursuant to a discretionary plan approved by our Board of Directors, during our fiscal year 2008, we purchased 6,400 shares of our common stock for an aggregate purchase price of $49,000. Of the shares purchased, we purchased 1,200 shares of our common stock from the Joseph G. Flanigan Charitable Trust for $9,600 and 2,500 shares of our common stock from an employee for $20,000 in off market transactions, which reflected an actual per share purchase price which was equal to the average per share market price on the date of





NOTE 12. COMMON STOCK (Continued)

Purchase of Common Shares (Continued)

purchase. The balance of our common stock purchased, 2,700 shares, were purchased on the open market for an aggregate purchase price of $19,400. During our fiscal year 2007, we purchased 3,332 shares of our common stock for an aggregate purchase price of $36,000. Of the shares purchased, 2,500 shares were purchased from August Bucci, our Chief Operating Officer and Director, in an off market private transaction, at an aggregate purchase price of $28,000, which reflected an actual per share purchase price which was less than the avarage per share market price on the date of purchase. The balance of our common stock purchased, 832 shares, were purchased from a former employee, (332 shares), for $3,500, and from the Joseph G. Flanigan Charitable Trust, (500 shares), for $4,500 in off market transactions, which reflected an actual per share purchase price which was equal to the average per share market price on the date of purchase.

Sale of Common Shares

During our fiscal years 2008 and 2007, we sold an aggregate of -0- and 9,510 shares of our common stock, respectively, pursuant to the exercise of options, to certain employees and officers for a total of approximately $-0-, and $61,000, respectively.

Stock Options

We granted no options during our fiscal years 2008 and 2007.

Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R) to account for stock-based employee compensation. We 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. We had no unvested stock options as of January 1, 2006 and granted no stock options in the fiscal years ended September 27, 2008 and September 29, 2007, so no compensation cost has been recognized on our consolidated financial statements for our fiscal years ended September 27, 2008 and September 29, 2007.

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

| | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of year | 50,300 | 67,850 |
| Options granted | -- | -- |
| Options exercised | -- | (9,510) |
| Options expired | (950) | (8,040) |
| Outstanding at end of year | 49,350 | 50,300 |
| Exercisable at end of year | 49,350 | 50,300 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 12. COMMON STOCK (Continued)

Stock Options (Continued)

The intrinsic value as of the exercise date of the -0- and 9,510 stock options exercised during our fiscal years ended September 27, 2008 and September 29, 2007 were approximately $-0- and $45,000, respectively.

Weighted average option exercise price information for our fiscal years 2008 and 2007 is as follows:

| | 2008 | 2007 |
|---|---|---|
| Outstanding at beginning of year | $6.31 | $6.27 |
| Granted during the year | $ - | $ - |

| | | |
|---|---|---|
| Exercised during the year | $ - | $6.23 |
| Outstanding at end of year | $6.31 | $6.31 |
| Exercisable at end of year | $6.31 | $6.31 |

Our significant option groups outstanding at September 27, 2008 and related weighted average price and life information are as follows:

| Grant Date | Options Outstanding | Options Exercisable | Exercise Price | Remaining Life (Years) |
|---|---|---|---|---|
| 10-1-03 | 9,350 | 9,350 | $6.14 | 0.0* |
| 5-20-04 | 40,000 | 40,000 | $6.35 | 0.625 |

*expired unexercised on October 3, 2008.

The weighted-average remaining contractual terms of our stock options outstanding and stock options exercisable at September 27, 2008 was 0.507 years. The aggregate intrinsic value of our options outstanding and stock options exercisable at September 27, 2008 was $-0-.

NOTE 13. NET INCOME PER COMMON SHARE

We follow 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 if the weighted average market price exceeds the exercise price. In the fourth quarter, the options granted on May 20, 2004 became anti-dilutive and were not included in the computation of diluted EPS for the fourth quarter. Earnings per share are computed by dividing income available to common stockholders by the basic and diluted weighted average number of common shares.





NOTE 13. NET INCOME PER COMMON SHARE (Continued)

| | 2008 | 2007 |
|---|---|---|
| Basic weighted average shares | 1,888,000 | 1,889,000 |
| Incremental shares relating to outstanding Options | 1,000 | 21,000 |

| | | |
|---|---|---|
| Diluted weighted average shares | 1,889,000 | 1,910,000 |

NOTE 14. RELATED PARTY TRANSACTIONS

Our Chief Executive Officer manages one of our franchised stores.

Also see Notes 7 and 11 for additional related party transactions.

NOTE 15. BUSINESS SEGMENTS

We operate principally in two reportable segments -package stores and restaurants. The operation of package stores consists of retail liquor sales and related items. Information concerning the revenues and operating income for our fiscal years ended 2008 and 2007, and identifiable assets for the two reportable segments in which we operate, are shown in the following table. Operating income is total revenue less cost of merchandise sold and operating expenses relative to each segment. In computing operating income, none of the following items have been included: interest expense, other non-operating income and expense and income taxes. Identifiable assets by segment are those assets that are used in our operations in each segment. Corporate assets are principally cash, note receivable and real property, improvements, furniture, equipment and vehicles used at our corporate headquarters. We do not have any operations outside of the United States and transactions between restaurants and package liquor stores are not material.

| | 2008 | 2007 |
|---|---|---|
| Operating Revenues: | | |
| Restaurants | $50,400,000 | $46,811,000 |
| Package stores | 12,317,000 | 12,784,000 |
| Other revenues | 1,492,000 | 1,506,000 |
| Total operating revenues | $64,209,000 | $61,101,000 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 15. BUSINESS SEGMENTS (Continued)

| | 2008 | |
|---|---|---|
| Operating Income Reconciled to Income before Income Taxes and Minority Interest in earnings (losses) of Consolidated Limited Partnerships: | | |
| Restaurants | $ 3,669,000 | $ 3 |
| Package stores | 491,000 | |

| | | |
|---|---|---|
| | 4,160,000 | 3 |
| Corporate expenses, net of other revenues | (2,160,000) | (1 |
| Operating income | 2,000,000 | 2 |
| Equity in net income of limited partnership | 21,000 | |
| Minority interest in (earnings) losses of consolidated limited partnerships | 13,000 | |
| Interest expense, net of interest income | (413,000) | |
| Other | -- | |
| Income Before Income Taxes | $ 1,621,000 | $ 1 |
| Identifiable Assets: | | |
| Restaurants | $19,699,000 | $18 |
| Package store | 3,673,000 | 3 |
| | 23,372,000 | 21 |
| Corporate | 9,201,000 | 8 |
| Consolidated Totals | $32,573,000 | $30 |
| Capital Expenditures: | | |
| Restaurants | $ 3,825,000 | $ 3 |
| Package stores | 194,000 | |
| | 4,019,000 | 3 |
| Corporate | 318,000 | 1 |
| Total Capital Expenditures | $ 4,337,000 | $ 4 |
| Depreciation and Amortization: | | |
| Restaurants | $ 1,759,000 | $ 1 |
| Package stores | 252,000 | |
| | 2,011,000 | 1 |
| Corporate | 352,000 | |
| Total Depreciation and Amortization | $ 2,363,000 | $ 2 |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 16. QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of our unaudited quarterly results of operations for the quarters in our fiscal years 2008 and 2007.

Quarter Ended

| | December 29, 2007 | March 29, 2008 | June 28, 2008 | Septem 20 |
|---|---|---|---|---|
| Revenues | $ 15,904,000 | $16,983,000 | $15,765,000 | $ 15, |
| Income from operations | 180,000 | 970,000 | 651,000 | |
| Net income | 185,000 | 470,000 | 336,000 | |
| Net income per share - Basic | 0.10 | 0.25 | 0.18 | |
| Net income per share - Diluted | 0.10 | 0.25 | 0.18 | |
| Weighted average common stock outstanding - basic | 1,890,372 | 1,889,121 | 1,886,077 | 1, |
| Weighted average common stock outstanding - diluted | 1,903,300 | 1,899,992 | 1,895,378 | 1, |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | December 30, 2006 | March 31, 2007 | June 30 2007 | Septem 20 |
| Revenues | $ 14,985,000 | $16,304,000 | $15,407,000 | $ 14, |
| Income from operations | 712,000 | 810,000 | 288,000 | |
| Net income | 324,000 | 332,000 | 427,000 | |
| Net income per share - Basic | 0.17 | 0.18 | 0.23 | |
| Net income per share - Diluted | 0.17 | 0.17 | 0.22 | |
| Weighted average common stock outstanding - basic | 1,884,201 | 1,887,917 | 1,892,891 | 1, |
| Weighted average common stock outstanding - diluted | 1,911,022 | 1,915,176 | 1,914,986 | 1, |

The following is a summary of the significant fourth quarter adjustments for our fiscal year 2007:

| | |
|---|---|
| Decrease in accrual for officers' bonuses | ($181,000) |
| Adjusting estimated income taxes to actual | 95,000 |
| | ($ 86,000) |



FLANIGAN'S ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 16. QUARTERLY INFORMATION (UNAUDITED) (Continued)

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

NOTE 17. 401(k) PLAN

Effective July 2004, we 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. We are not required to contribute to the plan but may make discretionary profit sharing and matching contributions. During our fiscal years 2008 and 2007, we made discretionary contributions of $30,000 and $29,000, respectively.

Schedule II - Valuation and Qualifying Accounts

We maintain no accounts that qualify for this schedule for each of our two fiscal years ended September 27, 2008 or, September 29, 2007.