



**BENIHANA<sup>®</sup> inc.**

**ANNUAL REPORT 2004**

Selected Financial Data

*In thousands, except per share information*

	FISCAL YEARS ENDED				
	March 28, 2004	March 30, 2003	March 31, 2002	April 1, 2001 <small>(53 wk yr)</small>	March 26, 2000
<b>CONSOLIDATED STATEMENTS OF EARNINGS DATA:</b>					
Total revenues	<b>\$ 202,963</b>	\$ 189,244	\$ 171,507	\$ 163,243	\$ 137,477
Cost of food and beverage sales	<b>51,437</b>	46,182	42,754	43,301	36,588
Restaurant operating expenses	<b>118,015</b>	111,725	99,707	89,427	74,088
Restaurant opening costs	<b>1,845</b>	485	1,228	1,453	566
Marketing, general and administrative expenses	<b>16,362</b>	15,512	13,373	13,690	11,402
Impairment charge			438		
Interest expense, net	<b>457</b>	528	990	1,233	1,297
Income before income taxes and minority interest	<b>14,847</b>	14,812	13,017	14,139	13,536
Income tax provision	<b>4,965</b>	4,862	4,088	5,008	4,722
Income before minority interest	<b>9,882</b>	9,950	8,929	9,131	8,814
Minority interest	<b>643</b>	477	100	40	81
Net income	<b>9,239</b>	9,473	8,829	9,091	8,733
Basic earnings per common share <sup>(1)</sup>	<b>1.04</b>	1.08	1.16	1.28	1.23
Diluted earnings per common share <sup>(1)</sup>	<b>1.01</b>	1.01	1.11	1.20	1.14
<b>CONSOLIDATED BALANCE SHEET DATA:</b>					
Total assets	<b>\$ 142,410</b>	\$ 128,481	\$ 98,301	\$ 85,929	\$ 75,445
Long-term debt including current maturities	<b>21,500</b>	22,000	6,000	14,645	14,646
Stockholders' equity	<b>97,230</b>	85,631	73,713	52,685	43,545
<b>OTHER FINANCIAL DATA:</b>					
Capital expenditures	<b>\$ 22,038</b>	\$ 27,418	\$ 13,944	\$ 14,611	\$ 9,643

<sup>(1)</sup> On June 7, 2002, the Board of Directors declared a 15% stock dividend in Class A stock on both the Class A Shares and Common Shares. The stock dividend was paid on August 12, 2002 to holders of record July 15, 2002. As a result, basic and diluted earnings per common share are shown as if the stock dividend had been in existence for each fiscal year presented.

## To Our Shareholders

Fiscal 2005 — the year we are now embarked upon — marks the 40th anniversary of Benihana. We expect it to be a year of further growth and accomplishment.

Over these many years, Benihana has developed into one of the nation's best known restaurant Companies. Our commitment to excellence, offering well prepared, quality food combined with outstanding service and a relaxed, friendly and entertaining dining experience has served us well. Benihana is among the very few restaurants or restaurant chains to achieve this record of longevity — four decades of remaining competitive and relevant for succeeding generations of customers.

Last year marked another milestone, with revenues reaching \$203 million, it was the first time our Company has exceeded the \$200 million mark. Fiscal 2004 was a challenging year beginning with a sluggish economy, high unemployment and international strife, all of which contributed to affect the consumers' mood. However, as business activity regained its footing, people began dining out in greater numbers, and our Benihana teppanyaki restaurants — a choice destination for people in a celebratory mood — rebounded strongly. Our Haru and RA Sushi restaurants performed exceedingly well throughout the entire year which is reflected by double digit comparable sales increases at both concepts.

Fiscal 2004 ended on a very sound note, with net income of \$9.2 million, the second best year in our Company's history. Fully diluted, per share earnings amounted to \$1.01.

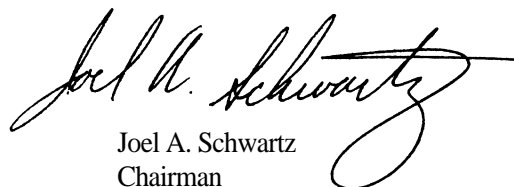
Our goal, as we enter our fifth decade, is to continue to grow Benihana in line with its historic performance. Towards that end, we have developed and have implemented a plan to assure that we reach that goal.

- A key priority is our investment to maintain the beauty and appeal of our teppanyaki restaurants, which are located on choice real estate in their respective markets. A notable national design firm has been retained to assist us in an extensive evaluation of our Benihana restaurants. The objective is fundamentally to make every aspect of our Benihana restaurants — from the decor to personal service — totally responsive to today's customers. The results of the evaluations are due this fall, and we expect them not only to deal with the vital intangibles of appearance and personal attractiveness, but also to enable us to realize tangible savings in the remodeling, where necessary, and the construction of new teppanyaki restaurants.
- Benihana also is committed to expansion. Over the last five years, our Company has grown from 53 restaurants to a chain of 69 restaurants nationwide. Last year, we opened seven new restaurants, including four new teppanyaki restaurants. That gave us a total of 56 teppanyaki restaurants, with two more under development as the current year began. RA Sushi opened three restaurants, and in the roughly 18 months it has been part of Benihana it has grown from four to seven restaurants, with two more under development (in Huntington Beach, CA, and Las Vegas, NV) extending its reach from San Diego, CA, to Chicago, IL. Haru, with five restaurants in New York City in operation, is developing its first location outside the City, in Philadelphia, PA, which is likely to open this winter. It also recently signed a lease for a restaurant to be located in the Gramercy Park area of downtown New York City. We remain committed to judiciously growing our Company, and remain actively involved in researching promising locations that will bring us long-term benefits.

- And our Company remains interested in growing beyond our traditional teppanyaki concept. Our acquisitions of Haru and RA Sushi brought Benihana new, vibrant concepts that have contributed dimension and enhanced profitability. We expect to remain in the Asian food space, which we know best and for which there is a growing appetite on the part of the American people. Our fundamental requirement is that any acquisitions we make be a good fit, have solid managements committed to their businesses and be accretive to earnings.
- Apart from food and occupancy costs, labor is the largest single segment of operating expenses, accounting for approximately one-third of overall costs. Our people are highly skilled, talented and committed to Benihana, a true asset. And as the Company continues to expand, there are growth opportunities for them as well. Within that context, and with their active participation, we have focused on reducing labor costs and related expenses, and increasing productivity as measured by sales per employee.
- Benihana has always been a marketing oriented Company, and this remains a key ingredient in our success. As with everything else we do, our marketing is cost effective and very targeted, focused on specific markets in which we are active. Our marketing department has developed programs that achieve greater effectiveness with every dollar spent, and so, despite our considerable growth, our marketing budget has remained relatively unchanged. Our Benihana website is colorful, attractive and informative, featuring information on Japan as well as our Benihana family, while also connecting to the websites of each of our restaurant concepts. We invite you to visit it at [www.benihana.com](http://www.benihana.com).

Last year, in the fourth quarter, the number of people visiting our various restaurant concepts reached an annual rate of over 8 million. Certainly, a strong indication of our Company's continued vitality. We also took a major step to assure our Company's growth in the future by reaching an agreement to obtain new financing via the sale of \$20 million in a new convertible preferred stock to BFC Financial Corporation. This move represents a highly cost effective way to broaden our equity, and provide for what we anticipate surely will be an exciting future for Benihana.

We are indebted, as always, to our employees for their loyalty and hard work, to the members of our Board of Directors for their valuable counsel and guidance, and to you, our shareholders and customers for your continued support.



Joel A. Schwartz  
Chairman  
President & CEO

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### **OVERVIEW**

##### **Summary of results**

Summary highlights of our fiscal 2004 year compared to the previous year:

- the twelfth consecutive year of total sales increases,
- opened four new Benihana teppanyaki-style restaurants in Scottsdale, Arizona; Alpharetta, Georgia; Bethesda, Maryland and Westbury, New York,
- opened three new RA Sushi restaurants in Tucson, Arizona; San Diego, California and Chicago, Illinois,
- earnings per diluted share of \$1.01 were the same as the prior fiscal year, and
- restaurant operating profit (restaurant sales less cost of food and beverage sales and restaurant operating expenses) increased 6.3% to approximately \$31.9 million.

##### **Our Business**

We have operated teppanyaki-style Japanese restaurants in the United States for over 39 years, and we believe we are the largest operator of teppanyaki-style restaurants in the country. Our core concept, the traditional Benihana restaurant, offers teppanyaki-style Japanese cooking in which fresh steak, chicken and seafood is prepared by a Benihana chef on a steel grill which forms a part of the table on which the food is served. Our Haru concept offers an extensive menu of Japanese fusion dishes in a high energy, urban atmosphere. In addition to traditional, high quality sushi and sashimi creations, Haru offers raw bar items and Japanese cuisine. Our RA Sushi concept offers sushi and a full menu of Pacific-Rim dishes in a high-energy environment featuring upbeat design elements and music. Our one Doraku restaurant offers sushi and other Japanese items.

At March 28, 2004 we:

- owned and operated 56 Benihana teppanyaki-style Japanese dinnerhouse restaurants,
- franchised others to operate 22 additional Benihana restaurants,
- owned and operated five Haru restaurants in New York City,
- owned and operated seven RA Sushi restaurants, and
- owned and operated one Doraku restaurant in Miami Beach, Florida.

##### **OUTLOOK**

We continued to grow in fiscal 2004, despite a challenging environment. We opened four teppanyaki restaurants and three RA Sushi restaurants. We believe that our revenues will increase next year due to the newly opened restaurants and from continuing increases in customer counts at restaurants open for longer than one year. Additionally, our revenues will increase from the planned openings of two new teppanyaki restaurants in Carlsbad, California and Coral Gables, Florida; two new Haru restaurants - one in Philadelphia, Pennsylvania and one in the Gramercy Park section of Manhattan; and one new RA Sushi restaurant in Las Vegas, Nevada. We also have a signed lease for another RA Sushi restaurant to open in fiscal 2006 in Huntington Beach, California.

We have undertaken a design initiative to develop a prototype teppanyaki restaurant to improve unit-level economics while shortening construction time and improving decor. This program should be completed in fiscal 2005 and implemented late in the fiscal year for new units that will be under construction by year's end. The initiative will also assist us in restaurant refurbishing.

We also continue to manage commodity costs and will institute a menu price increase in the second quarter of fiscal 2005 to offset increasing beef costs. We expect labor costs to remain constant in fiscal 2005.

## Management's Discussion and Analysis:

### Financial Condition and Results of Operations

#### OPERATING RESULTS

##### Revenues

Revenues consist of the sales of food and beverages at our restaurants and royalties and licensing fees from franchised restaurants. Revenues are dependent upon the number of patrons that visit our restaurants and franchisees' restaurants and the average check amounts.

The following table shows revenues and percentage changes for the past three years:

(Dollar amounts are expressed in thousands)

	FISCAL YEAR ENDED					
	2004		2003		2002	
		Percent change from 2003		Percent change from 2002		Percent change from 2001
Restaurant sales	\$201,335	7.1%	\$187,913	10.5%	\$170,051	5.1%
Franchise fees and royalties	1,628	22.3%	1,331	(8.6%)	1,456	5.7%
Total revenues	\$202,963	7.2%	\$189,244	10.3%	\$171,507	5.1%

The table below shows the amount of the changes in restaurant sales and the nature of the changes.

(Dollar amounts are expressed in thousands)

	FISCAL YEAR ENDED		
	2004	2003	2002
Amount of increase from prior year	\$13,422	\$17,862	\$ 8,186
Increase in sales from restaurants opened or owned longer than one year	211	7,206	1,808
Increase from new restaurants	7,062	8,897	9,580
Increase from acquired restaurants	7,748	3,226	
Increase from sales at existing units while not comparable due to remodeling closures	497	330	
Effect of additional week in fiscal 2001			(3,202)
Closed units	(2,096)	(1,797)	

We believe that the Benihana style of presentation makes us a unique choice for customers. We believe that customers who are seeking greater value for their dining budget appreciate the entertainment value provided by the chef cooking directly at their table. We continued our multi-year program to build capacity in our existing restaurants through adding additional tables and sushi bars. Sales over the past two years have also increased as a result of an increasing trend for sushi as a menu item. We believe that we are the largest restaurant chain offering sushi to consumers nationwide. Sushi bars have been added to most of the Benihana restaurants over the past several years.

We also have three sushi concepts. The Haru concept features an extensive menu of Japanese fusion dishes served in a high energy, urban setting. Haru's menu offers traditional sushi and sashimi creations as well as raw bar items and Japanese cuisine. The Haru concept generates exceptionally high volumes as a result of customer acceptance and the high population density of the concept's primary market, New York City. Approximately 40% of Haru's revenues are derived from delivery and takeout sales. The RA Sushi concept is a vibrant, hip restaurant featuring sushi and other Asian menu items in a high-energy environment featuring upbeat design elements and music. RA Sushi's beverage sales account for approximately 34% of restaurant sales. The RA Sushi units are less expensive to build than the Company's other two concepts and offer the Company a growth vehicle that can succeed in most markets. The Company's one Doraku restaurant offers sushi and other Japanese dishes. The Company currently does not plan to expand this concept.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### ***2004 compared to 2003***

Revenues increased 7.2% in fiscal 2004 when compared to fiscal 2003. Restaurant sales increased \$13.4 million in fiscal 2004 when compared to fiscal 2003. The increase was mainly attributable to sales from the acquired RA Sushi restaurants of \$7.7 million and from sales of new restaurants of \$7.1 million. Guest counts increased 569,000 to 8.2 million. The average guest check amount was \$23.61 in fiscal 2004 compared to \$23.45 in fiscal 2003 at the teppanyaki restaurants, \$27.15 in fiscal 2004 compared to \$28.22 in fiscal 2003 at the Haru restaurants, \$22.29 in fiscal 2004 compared to \$20.56 in fiscal 2003 at the Doraku restaurant and \$19.06 in fiscal 2004 compared to \$19.15 in fiscal 2003 at the RA Sushi restaurants.

Comparable restaurant sales growth for restaurants opened longer than one year was \$0.2 million in fiscal 2004. Comparable sales for the teppanyaki restaurants decreased by 1.2%, comparable sales for the Haru restaurants increased 8.4%, comparable sales for the RA Sushi restaurants increased 10.3% and for the one Doraku restaurant comparable sales increased 14.5% in fiscal 2004 when compared to fiscal 2003.

We closed the Bethesda, Maryland teppanyaki restaurant in October of 2003 and opened at a nearby location two weeks later. In fiscal 2003 we closed two restaurants. The Louisville restaurant closed the last week of fiscal 2003 after its lease expired. The Chicago Doraku restaurant closed in February of 2003 and was converted to a RA Sushi restaurant which opened in January 2004.

Franchise fees and royalties increased in fiscal 2004 when compared to fiscal 2003. The increase was mainly attributable to increased fees from the opening of the Edison, New Jersey and Santiago, Chile franchises.

#### ***2003 compared to 2002***

Revenues increased 10.3% in fiscal 2003 when compared to fiscal 2002. Restaurant sales increased \$17,862,000 in fiscal 2003 when compared to fiscal 2002. The increase is mainly attributable to increases in comparable restaurant sales of \$7,206,000 and from increases in sales from new restaurants of \$8,897,000. Comparable restaurant sales growth for restaurants opened longer than one year was 4.4% in fiscal 2003. Guest counts increased 9.4% to 7.6 million. The average per guest check amount was \$23.45 at the teppanyaki restaurants, \$28.22 at the Haru restaurants, \$20.56 at the Doraku restaurants and \$19.15 at the RA Sushi restaurants.

Restaurant sales were positively affected by the increase in guest counts in fiscal 2003 when compared to the 9/11 affected fiscal 2002. The increase in customer counts was tempered by a slowing economy, the Iraqi war as well as the inclement weather in the fourth quarter of fiscal 2003.

We closed two restaurants in fiscal 2003. The Louisville teppanyaki restaurant closed the last week of fiscal 2003 after its lease expired. The Chicago Doraku restaurant closed in February 2003 and was reopened as a RA Sushi restaurant in January 2004.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### **Operating costs and expenses**

Operating costs and expenses are largely dependent on the number of customers that visit our restaurants and the costs commodities used in food preparation, the number of employees that are necessary to provide a high quality of service to our customers, rents we pay for our restaurant properties, utilities and other necessary costs.

The following table shows the amount of change in our restaurant operating costs, costs as a percentage of restaurant sales, and the percentages of change from the preceding years.

	FISCAL YEAR ENDED		
	2004	2003	2002
<b>Cost as a percentage of restaurant sales:</b>			
Cost of food and beverage sales	25.6%	24.6%	25.1%
Restaurant operating expenses	58.6%	59.5%	58.6%
Restaurant opening costs	.9%	.3%	.7%
Marketing, general and administrative expenses	8.1%	8.3%	7.9%
<b>Amount of change from prior year:</b>			
Cost of food and beverage sales	\$ 5,255	\$ 3,428	\$ (547)
Restaurant operating expenses	6,290	12,018	10,280
Restaurant opening costs	1,360	(743)	(225)
Marketing, general and administrative expenses	850	2,139	(317)
Interest expense, net	(71)	(462)	(243)
<b>Percentage increase or (decrease) from prior year:</b>			
Cost of food and beverage sales	11.4%	8.0%	(1.3%)
Restaurant operating expenses	5.6%	12.1%	11.5%
Restaurant opening costs	280.4%	(60.5%)	(15.5%)
Marketing, general and administrative expenses	5.5%	16.0%	(2.3%)
Interest expense, net	(13.4%)	(46.7%)	(19.7%)

#### ***2004 compared to 2003***

Cost of food and beverage sales increased in absolute amount and when expressed as a percentage of sales in fiscal 2004 when compared to fiscal 2003.

The increase in absolute amount is attributable to the increase in sales. The increase when expressed as a percentage of sales was attributable to increased beef costs in the current fiscal year. Beef costs comprise 40% of our total commodity costs. Average beef costs increased 9.0% in fiscal 2004 when compared to fiscal 2003. Lobster costs which comprise 15% of our total commodity costs increased an average of 15.5% in fiscal 2004 when compared to fiscal 2003. All other commodity cost fluctuations were not significant.

Restaurant operating expenses increased in absolute amount but decreased when expressed as a percentage of sales in fiscal 2004 when compared to fiscal 2003. The increase in absolute amount was mainly attributable to the seven new restaurants opened during fiscal 2004. The decrease when expressed as a percentage of sales was attributable to increased labor productivity in fiscal 2004 and from stable health insurance costs in the current fiscal year compared to increased sales. Occupancy costs and depreciation and amortization expenses increased in both absolute amount and when expressed as a percentage of sales primarily from the opening of the seven new restaurants. Utility costs increased due to higher energy costs in the current fiscal year.

Restaurant opening costs increased in absolute amount and when expressed as a percentage of sales in fiscal 2004 when compared to fiscal 2003 as a result of the growth in restaurant development activity in the current fiscal year compared to the prior fiscal year. The increase in restaurant opening costs such as rent and labor and related costs was a result of opening seven restaurants and having four other new restaurants under development in the current fiscal year compared to opening two in the prior fiscal year.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### ***2004 compared to 2003 (cont.)***

Marketing, general and administrative costs increased in absolute amount but decreased when expressed as a percentage of sales in fiscal 2004 when compared to fiscal 2003. The increase in absolute amount is due to increased labor and related costs for a full year from additional management personnel who were hired by the Company in connection with the acquisition of the RA Sushi concept. Also contributing to the increase was an increase in planned advertising costs in the current fiscal year compared to the prior fiscal year. The slight decrease when expressed as a percentage of sales was immaterial.

Interest expense, net, decreased in fiscal 2004 when compared to fiscal 2003. The decrease was a result of a decrease in the average interest rate in the current fiscal year compared to the comparable prior fiscal year.

Our effective tax rate was 35.0% for fiscal 2004 compared to 33.9% for fiscal 2003. The increase was primarily a result of increased minority interest expense which is not deductible for tax purposes.

#### ***2003 compared to 2002***

Cost of food and beverage sales increased in absolute amount, but decreased when expressed as a percentage of sales in fiscal 2003 when compared to fiscal 2002. The increase in absolute amount is attributable to the increase in sales. The decrease when expressed as a percentage of sales is attributable to lower commodity prices, principally shrimp, in fiscal 2003.

Restaurant operating expenses increased in absolute amount and when expressed as a percentage of sales in fiscal 2003 when compared to fiscal 2002. The increase was attributable to increased labor and related costs, an increase in property and liability insurance expense and increased depreciation and amortization expenses. The increase in labor and related costs relates principally to the increase in health care benefits costs and declining productivity coupled with increasing overtime wages during the first two quarters of fiscal 2003 compared to the equivalent periods of fiscal 2002. Property and liability insurance expense increased from an increase in premiums. Lastly, depreciation and amortization increased due to new restaurant properties placed into service and other capital expenditures made to the existing restaurant portfolio in fiscal 2003 compared to fiscal 2002.

Restaurant opening costs decreased in fiscal 2003 when compared to fiscal year 2002 as a result of the relatively large expenses associated with the three Haru openings in the preceding fiscal year. In fiscal year 2003, restaurant opening costs related to the new Benihana restaurants in The Woodlands and Las Colinas, Texas and to the new Benihana in Westbury, New York which opened during the second week of fiscal 2004.

Marketing, general and administrative costs increased in absolute amount and when expressed as a percentage of sales in fiscal 2003 when compared to fiscal 2002. The increase was attributable to increased salaries and benefits from additional management personnel who were hired by the Company in connection with the acquisition of the RA Sushi concept. Additionally, advertising expenses increased in fiscal 2003 as a result of increased advertising expenditures.

Interest expense, net, decreased in 2003 fiscal year when compared to fiscal 2002. The decrease was a result of lower average borrowings outstanding coupled with lower interest rates in fiscal 2003 compared to fiscal 2002.

Our effective income tax rate increased in fiscal 2003 to 33.9% from 31.6% in fiscal 2002. The increase was due to an increase in net pre-tax income coupled with a relatively fixed amount of Federal tax credit for FICA taxes paid on reported tip income.

## Management's Discussion and Analysis:

### Financial Condition and Results of Operations

#### OUR FINANCIAL RESOURCES

We have borrowings from Wachovia Bank, National Association ("Wachovia") under a term loan and a revolving line of credit facility, both of which were renegotiated on December 3, 2002. The renegotiated credit agreement increased the term loan facility to \$16,000,000. The line of credit facility allows us to borrow up to \$15,000,000 through December 31, 2007. At March 28, 2004, we had \$6,500,000 available for borrowing under the revolving line of credit. The term loan had \$13,000,000 outstanding at March 28, 2004 and is payable in quarterly installments of \$750,000 through December 2004 and \$833,333 thereafter until the term loan matures in December 2007. The interest rate at March 28, 2004 of both the line of credit and the term loan was approximately 2.10%. We have the option to pay interest at Wachovia's prime rate plus 1% or at *libor* plus 1%. The interest rate may vary depending upon the ratio that the sum of earnings before interest, taxes, depreciation and amortization has to our total indebtedness. The loan agreements limit our capital expenditures, require that we maintain certain financial ratios and profitability amounts and prohibit the payment of cash dividends on common stock.

For the quarter ended March 28, 2004, the Company was not in compliance with a Consolidated EBITDA covenant of the Company's credit agreement with Wachovia. The Company received a waiver from Wachovia to cure its noncompliance on May 25, 2004. There can be no assurance that such non-compliance will not occur in future periods or that, if it does, the Company's lender will agree to waive any such future non-compliance.

Since restaurant businesses generally do not need relatively large amounts of inventory and accounts receivable, there is no need to finance them. As a result, many restaurant businesses have deficiencies in working capital.

The following table summarizes the sources and uses of cash (*in thousands*):

	FISCAL YEAR ENDED	
	2004	2003
Cash provided by operations	\$20,449	\$18,279
Cash (used in) investing activities	(22,042)	(38,782)
Cash provided by financing activities	1,490	17,740
Decrease in cash	\$ (103)	\$(2,763)

The Company has entered into an agreement to sell \$20,000,000 aggregate principal amount of Convertible Preferred Stock of which \$10,000,000 will be available upon closing with the remaining \$10,000,000 to be available beginning on the anniversary date to three years from the anniversary date. The Convertible Preferred Stock will be convertible into common shares of the Company at a conversion price of \$19.00 per share, and will carry a cash dividend of 5.0%. The closing of the transaction, which is subject to the execution of definitive documentation and customary closing conditions, is expected to occur in the first quarter of fiscal 2005. We believe that the cash to be provided under the agreement will be sufficient to cover the Company's cash needs for planned unit growth and refurbishing existing units.

Contractual obligations and commitments (*in thousands*):

	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt obligations	\$ 21,500	\$ 3,000	\$ 3,333	\$ 4,167	\$ 11,000	-	-
Capital lease obligations	299	273	26	-	-	-	-
Operating lease obligations	116,849	8,674	9,008	8,728	8,675	8,756	73,008
Other liabilities <sup>(1)</sup>	652	652	-	-	-	-	-
Total	\$139,300	\$ 12,599	\$ 12,367	\$ 12,895	\$ 19,675	\$ 8,756	\$ 73,008

<sup>(1)</sup> Contingent payment from RA Sushi acquisition.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### **OPERATING ACTIVITIES**

Cash provided by operations increased as a percentage of net income during the year from fiscal 2003 primarily as a result of increases in noncash items such as depreciation and amortization and deferred taxes as well as changes in operating assets and liabilities.

#### **INVESTING ACTIVITIES**

Expenditures for property and equipment were \$22,038,000, a decrease of \$5,380,000 from the prior fiscal year. Of the \$22,038,000 capital expenditures for fiscal 2004, \$7,200,000 represented new construction for teppanyaki units, \$3,900,000 represented new construction for RA Sushi units, \$400,000 represented new construction for Haru restaurants, \$2,000,000 represented the purchase of the land and building of the Dallas teppanyaki restaurant and the balance of approximately \$8,500,000 was spent on replacements and refurbishments.

We expect to expend approximately \$15 million for the development of new restaurants during the 2005 fiscal year. We also intend to remodel several restaurants during our 2005 fiscal year. The total costs of these renovations are expected to be approximately \$14 million.

#### **FINANCING ACTIVITIES**

Our total indebtedness decreased by \$873,000 from the end of fiscal 2003. We had net borrowings of \$2,500,000 under the revolving line of credit. We repaid \$3,000,000 of the term loan in fiscal 2004 and \$373,000 of leases that are considered to be capital in nature. We also realized \$2,198,000 from the exercise of stock options and warrants as compared to \$1,929,000 in the previous fiscal year.

#### **THE IMPACT OF INFLATION**

The Company does not believe that inflation has had a material effect on sales or expenses during the last three years other than labor costs. The Company's restaurant operations are subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of the Company's food service and preparation personnel are paid at rates related to the federal minimum wage and, accordingly, increases in the minimum wage have increased the Company's labor costs in the last two years. To the extent permitted by competition, the Company has mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to certain risks of increasing interest rates and commodity prices. The interest on our indebtedness is largely variable and is benchmarked to the prime rate in the United States or to the London interbank offering rate. We may protect ourselves from interest rate increases from time-to-time by entering into derivative agreements that fix the interest rate at predetermined levels. We have a policy not to use derivative agreements for trading purposes.

We purchase commodities such as chicken, beef, lobster, fish and shrimp for our restaurants. The prices of these commodities may be volatile depending upon market conditions. We do not purchase forward commodity contracts because the changes in prices for them have historically been short-term in nature and, in our view, the cost of the contracts is in excess of the benefits.

#### **SEASONALITY OF OUR BUSINESS**

Our business is not highly seasonal although we do have more diners coming to our restaurants for special holidays such as Mother's Day, Valentine's Day and New Year's. Mother's Day falls in our first fiscal quarter, New Year's in the third fiscal quarter and Valentine's Day in the fourth fiscal quarter of each year.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reported period. (See Note 1 of notes to consolidated financial statements included in this Annual Report).

Critical accounting policies are those that we believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

We record all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful life of the assets or the lease terms of the respective leases. The useful life of property and equipment and the determination as to what constitutes a capitalized cost versus a repair and maintenance expense involves judgments by management. These judgments may produce materially different amounts of depreciation expense and repairs and maintenance expense if different assumptions were used.

We periodically assess the potential impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability of assets is measured by comparing the carrying value of the assets to the future cash flows to be generated by the asset. If the total future cash flows are less than the carrying amount of the asset, the carrying amount is written down to the estimated fair value, and an impairment charge is taken against results of operations.

We periodically review the recoverability of goodwill based primarily upon an analysis of cash flows of the related investment assets compared to the carrying value or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The analysis involves judgments by management which may produce materially different results if different assumptions are used in the analysis.

We are self-insured for a significant portion of our employee health and workers' compensation programs. The Company maintains stop-loss coverage with third party insurers to limit its total exposure. The accrued liability associated with these programs is based on our estimate of the ultimate costs to be incurred to settle known claims and an estimate of claims incurred but not reported to the Company as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

We estimate certain components of our provision for income taxes. These estimates include, but are not limited to, effective state and local income tax amounts, allowable tax credits for items such as FICA taxes paid on reported tip income and estimates related to depreciation expense allowable for tax purposes. Our estimates are made based on the best available information at the time that we prepare the provision. We usually file our income tax returns many months after our fiscal year-end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretations of the tax laws or the Company's application of such laws to its business (see Note 11 to our consolidated financial statements). During fiscal 2004, the Internal Revenue Service completed an examination of the Company's fiscal 2000, 2001 and 2002 Federal Income Tax returns. The examination did not result in any material adverse tax or financial consequences.

## Management's Discussion and Analysis:

### *Financial Condition and Results of Operations*

#### **NEW ACCOUNTING PRONOUNCEMENTS THAT MAY AFFECT OUR FINANCIAL REPORTING**

In December 2003, the Financial Accounting Standards Board ("FASB") revised and re-issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51", which was originally issued in January 2003. FIN No. 46 provides guidance on identifying variable interest entities ("VIE") and assessing whether or not a VIE should be consolidated. Variable interests are contractual, ownership or other monetary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An entity is considered to be a VIE when its capital is insufficient to permit it to finance its activities without additional subordinated financial support or its equity investors, as a group, lack the characteristics of having a controlling financial interest. FIN No. 46 requires the consolidation of entities which are determined to be VIE's when the reporting company determines that it will absorb a majority of the VIE's expected losses, receive a majority of the VIE's residual returns, or both. The company that is required to consolidate the VIE is called the primary beneficiary. As revised, the provisions of FIN No. 46 are to be applied to entities no later than the end of the first reporting period that ends after March 15, 2004. The Company does not have any relationships with or interests in entities considered to be special-purpose entities. The adoption of FIN No. 46 did not have an impact on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded into other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have an impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires than an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on our consolidated financial statements.

#### **FORWARD LOOKING STATEMENTS**

This Annual Report contains various "forward-looking statements" which represent our expectations or beliefs concerning future events, including unit growth, future capital expenditures, and other operating information. A number of factors could, either individually or in combination, cause actual results to differ materially from those included in the forward-looking statements, including changes in consumer dining preferences, fluctuations in commodity prices, availability of qualified employees, changes in the general economy, industry cyclicality, and in consumer disposable income, competition within the restaurant industry, availability of suitable restaurant locations, or acquisition opportunities, harsh weather conditions in areas in which the Company and its franchisees operate restaurants or plan to build new restaurants, acceptance of the Company's concepts in new locations, changes in governmental laws and regulations affecting labor rates, employee benefits, and franchising, ability to complete new restaurant construction and obtain governmental permits on a reasonably timely basis, unstable economy and conditions in foreign countries where we franchise restaurants and other factors that we cannot presently foresee.

## Consolidated Statements of Earnings

(In thousands, except per share information)

FISCAL YEAR ENDED	March 28, 2004	March 30, 2003	March 31, 2002
<b>REVENUES</b>			
Restaurant sales	\$ 201,335	\$ 187,913	\$ 170,051
Franchise fees and royalties	1,628	1,331	1,456
Total revenues	<b>202,963</b>	189,244	171,507
<b>COSTS AND EXPENSES</b>			
Cost of food and beverage sales	51,437	46,182	42,754
Restaurant operating expenses	118,015	111,725	99,707
Restaurant opening costs	1,845	485	1,228
Marketing, general and administrative expenses	16,362	15,512	13,373
Impairment charge			438
Total operating expenses	<b>187,659</b>	173,904	157,500
Income from operations	<b>15,304</b>	15,340	14,007
Interest expense, net	457	528	990
Income before income taxes and minority interest	<b>14,847</b>	14,812	13,017
Income tax provision	4,965	4,862	4,088
Income before minority interest	<b>9,882</b>	9,950	8,929
Minority interest	643	477	100
<b>Net Income</b>	<b>\$ 9,239</b>	\$ 9,473	\$ 8,829
<b>EARNINGS PER SHARE</b>			
Basic earnings per common share <sup>(1)</sup>	<b>\$ 1.04</b>	\$ 1.08	\$ 1.16
Diluted earnings per common share <sup>(1)</sup>	<b>\$ 1.01</b>	\$ 1.01	\$ 1.11

<sup>(1)</sup> On June 7, 2002, the Board of Directors declared a 15% stock dividend in Class A stock on both the Class A Shares and Common Shares. The stock dividend was paid on August 12, 2002 to holders of record July 15, 2002. As a result, basic and diluted earnings per common share are shown as if the stock dividend had been in existence for each fiscal year presented.

See notes to consolidated financial statements.

## Consolidated Balance Sheets

(In thousands, except share and per share information)

	March 28, 2004	March 30, 2003
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,196	\$ 2,299
Receivables	882	626
Inventories	6,147	5,328
Prepaid expenses	2,426	2,236
<b>Total current assets</b>	<b>11,651</b>	10,489
PROPERTY AND EQUIPMENT, NET	98,219	84,482
DEFERRED INCOME TAXES, NET		1,172
GOODWILL, NET	27,783	27,131
OTHER ASSETS	4,757	5,207
	<b>\$ 142,410</b>	<b>\$ 128,481</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 20,730	\$ 19,407
Current maturity of bank debt	3,000	3,000
Current maturities of obligations under capital leases	273	373
<b>Total current liabilities</b>	<b>24,003</b>	22,780
LONG-TERM DEBT - BANK	18,500	19,000
OBLIGATIONS UNDER CAPITAL LEASES	26	299
MINORITY INTEREST	1,414	771
DEFERRED INCOME TAXES, NET	1,237	
COMMITMENTS AND CONTINGENCIES (Notes 9 and 12)		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock - \$.10 par value; convertible into Class A common stock; authorized - 12,000,000 shares; issued and outstanding - 3,134,979 and 3,184,479 shares in 2004 and 2003, respectively	313	318
Class A Common stock - \$.10 par value; authorized - 20,000,000 shares; issued and outstanding - 5,967,527 and 5,595,084 shares in 2004 and 2003, respectively	597	560
Additional paid-in capital	50,772	48,444
Retained earnings	45,691	36,452
Treasury stock - 10,828 shares of Common stock at cost	(143)	(143)
<b>Total stockholders' equity</b>	<b>97,230</b>	85,631
	<b>\$ 142,410</b>	<b>\$ 128,481</b>

See notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

(In thousands, except share information)

	Preferred Stock	Common Stock	Class A Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
<b>Balance, April 1, 2001</b>	<b>1</b>	<b>358</b>	<b>259</b>	<b>14,847</b>	<b>37,336</b>	<b>(116)</b>	<b>52,685</b>
Net income					8,829		8,829
Tax benefit from stock options				352			352
Dividend on preferred stock					(5)		(5)
Conversion of 700 shares of preferred stock into 105,267 shares of Class A common stock	(1)		11	(10)			
Conversion of 316,937 shares of common stock into Class A common stock		(31)	31				
Issuance of 1,000,000 shares of Class A common stock, net of offering costs			100	10,517			10,617
Issuance of 14,000 shares of common stock under exercise of options		1		39			40
Issuance of 139,406 shares of Class A common stock under exercise of options			14	1,181			1,195
<b>Balance, March 31, 2002</b>		<b>328</b>	<b>415</b>	<b>26,926</b>	<b>46,160</b>	<b>(116)</b>	<b>73,713</b>
Net income					9,473		9,473
Tax benefit from stock options				517			517
Issuance of 1,141,050 shares of Class A common stock for stock dividend			115	19,089	(19,181)	(23)	
Conversion of 100,700 shares of common stock into Class A common stock		(10)	10				
Purchase of treasury stock						(4)	(4)
Issuance of 9,000 shares of common stock under exercise of options				43			43
Issuance of 178,865 shares of Class A common stock under exercise of options			18	1,708			1,726
Issuance of 150 shares of Class A common stock for incentive compensation				3			3
Issuance of 23,000 shares of Class A common stock under exercise of warrant			2	158			160
<b>Balance, March 30, 2003</b>		<b>318</b>	<b>560</b>	<b>48,444</b>	<b>36,452</b>	<b>(143)</b>	<b>85,631</b>
Net income					9,239		9,239
Tax benefit from stock options				162			162
Conversion of 79,500 shares of common stock into Class A common stock		(8)	8				
Issuance of 30,000 shares of common stock under exercise of options		3		214			217
Issuance of 207,000 shares of Class A common stock under exercise of warrants			21	1,420			1,441
Issuance of 85,943 shares of Class A common stock under exercise of options			8	532			540
<b>Balance, March 28, 2004</b>	<b>\$ 313</b>	<b>\$ 597</b>	<b>\$ 597</b>	<b>\$ 50,772</b>	<b>\$ 45,691</b>	<b>\$ (143)</b>	<b>\$ 97,230</b>

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(In thousands, except share information)

FISCAL YEAR ENDED	March 28, 2004	March 30, 2003	March 31, 2002
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 9,239	\$ 9,473	\$ 8,829
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,657	7,375	5,898
Minority interest	643	477	100
Deferred income taxes	2,409	791	1,010
Issuance of common stock for incentive compensation		3	
Loss on disposal of assets	154	120	207
Write-down of impaired assets			438
Change in operating assets and liabilities that provided (used) cash:			
Receivables	(256)	364	(256)
Inventories	(819)	(1,085)	52
Prepaid expenses	(190)	351	(1,408)
Other assets	(59)	(431)	(228)
Accounts payable and accrued expenses	671	841	589
<b>Net cash provided by operating activities</b>	<b>20,449</b>	<b>18,279</b>	<b>15,231</b>
<b>INVESTING ACTIVITIES:</b>			
Business acquisition, net of cash acquired		(11,353)	
Expenditures for property and equipment	(22,038)	(27,418)	(13,944)
Other	(4)	(11)	(15)
<b>Net cash used in investing activities</b>	<b>(22,042)</b>	<b>(38,782)</b>	<b>(13,959)</b>
<b>FINANCING ACTIVITIES:</b>			
Dividends paid on preferred stock			(5)
Proceeds from issuance of long-term debt	17,400	38,400	15,000
Repayment of long-term debt and obligations under capital leases	(18,270)	(19,502)	(24,344)
Proceeds from issuance of Class A Common stock			10,617
Proceeds from issuance of Common stock and Class A Common stock under exercise of options and warrants	2,198	1,929	1,235
Tax benefit from stock option and warrant exercise	162	517	352
Purchase of treasury stock		(4)	
<b>Net cash provided by financing activities</b>	<b>1,490</b>	<b>17,740</b>	<b>2,855</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(103)</b>	<b>(2,763)</b>	<b>4,127</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,299</b>	<b>5,062</b>	<b>935</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,196</b>	<b>\$ 2,299</b>	<b>\$ 5,062</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
CASH PAID DURING THE FISCAL YEAR FOR:			
Interest	\$ 484	\$ 423	\$ 1,030
Income taxes	\$ 2,305	\$ 3,055	\$ 3,831
BUSINESS ACQUISITIONS, NET OF CASH ACQUIRED:			
Fair value of assets acquired, other than cash		\$ 2,346	
Liabilities assumed		(1,646)	
Purchase price in excess of the net assets acquired		10,653	
		<b>\$ 11,353</b>	

During fiscal 2004, \$652,000 of goodwill was recorded related to contingent payments accrued for the RA Sushi acquisition.  
 During fiscal 2004, 79,500 shares of common stock were converted into 79,500 shares of Class A common stock.  
 During fiscal 2003, 100,700 shares of common stock were converted into 100,700 shares of Class A common stock.  
 During fiscal 2003, a stock dividend of 1,141,050 shares of Class A common stock was paid.  
 During fiscal 2002, 316,937 shares of common stock were converted into 316,937 shares of Class A common stock.  
 During fiscal 2002, 700 shares of preferred stock were converted into 105,267 shares of Class A common stock.

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### OPERATIONS

Benihana Inc., including its majority owned subsidiaries (the “Company”), owned and operated 56 teppanyaki style and 13 sushi restaurants and franchised 22 others as of March 28, 2004. The Company has the rights to open, license and develop Benihana restaurants in the United States, Central and South America and the Caribbean islands.

#### BASIS OF PRESENTATION

The consolidated financial statements include the assets, liabilities and results of operations of the Company’s majority-owned subsidiaries. The ownership of other interest holders including attributable income is reflected as minority interest. All intercompany accounts and transactions have been eliminated in consolidation. The Company operates within only one reportable operating segment.

The Company has a 52/53-week fiscal year. All fiscal years presented consisted of 52 weeks. The Company’s first fiscal quarter consists of 16 weeks and the remaining three quarters are 12 weeks each, except in the event of a fifty-three week year with the final quarter composed of 13 weeks. Because of the differences in length of these accounting periods, results of operations between the first quarter and the later quarters of a fiscal year are not comparable.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform with fiscal 2004 classifications.

#### FRANCHISE AND ROYALTIES REVENUE RECOGNITION

The Company recognizes initial franchise fees as income when substantially all of its obligations are satisfied, which generally coincides with the opening of the franchised restaurants. The Company also receives continuing royalties based upon a percentage of each franchised restaurant’s gross revenues. Royalties are recognized as income when earned.

#### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents.

#### INVENTORIES

Inventories, which consist principally of restaurant operating supplies and food and beverage, are stated at the lower of cost (first-in, first-out method) or market.

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization are computed by the straight-line method over the estimated useful life (buildings - 30 years; restaurant furniture, fixtures and equipment - 8 years; office equipment - 8 years; personal computers, software and related equipment - 3 years; and leaseholds - lesser of the lease terms, including renewal options, or useful life).

The Company capitalizes all direct costs incurred to construct restaurants. Upon opening, these costs are depreciated and charged to expense based upon their useful life classification. The amount of interest capitalized in connection with restaurant construction was approximately \$92,000 in fiscal 2004, \$0 in fiscal year 2003 and \$12,000 in fiscal year 2002.

#### ACCOUNTING FOR LONG-LIVED ASSETS

The Company periodically evaluates its net investment in restaurant properties for impairment for events or changes in circumstances that indicate the carrying amounts of an asset may not be recoverable. During fiscal 2002, the Company recorded an impairment charge of \$438,000 for the write-down to fair value of property and equipment at a Doraku restaurant. No impairments occurred in fiscal years 2004 and 2003.

**Notes to Consolidated Financial Statements**

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**ACCOUNTING FOR GOODWILL**

The Company periodically reviews goodwill for impairment and writes-down the carrying amount of goodwill to results of operations when the recorded value of goodwill is determined to be more than its fair value. The Company reviewed goodwill for possible impairment during fiscal 2004, 2003 and 2002 and determined that there was no impairment.

**ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE**

The Company capitalizes and records in other assets the cost of computer software obtained for internal use and amortizes such costs over a three-year period.

**INCOME TAXES**

The Company uses the asset and liability method which recognizes the amount of current and deferred taxes payable or refundable at the date of the financial statements as a result of all events that have been recognized in the consolidated financial statements as measured by the provisions of enacted law.

**DERIVATIVE INSTRUMENTS**

The Company does not currently utilize interest rate swap agreements to hedge exposure to fluctuations in variable interest rates. The Company had entered into an interest swap agreement which expired on May 1, 2002.

**STOCK-BASED COMPENSATION**

The Company accounts for stock-based compensation under the intrinsic value method of accounting for stock-based compensation. Therefore, the Company generally recognizes no compensation expense with respect to such awards because options are generally granted at the fair market value of the underlying shares on the date of the grant. The Company has disclosed pro forma net income and earnings per share amounts using the fair value method.

Had the Company accounted for its stock-based awards under the fair value method, the table below shows the pro forma effect on net income and earnings per share for the three most recent fiscal years.

	March 28, 2004	March 30, 2003	March 31, 2002
<b>Net income</b>			
As reported	<b>\$ 9,239</b>	\$ 9,473	\$ 8,829
Total stock-based employee compensation expense determined under fair value based method for all awards	<b>564</b>	754	606
Pro forma	<b>\$ 8,675</b>	\$ 8,719	\$ 8,223
<b>Basic earnings per share:</b>			
As reported	<b>\$ 1.04</b>	\$ 1.08	\$ 1.16
Pro forma	<b>\$ .98</b>	\$ 1.00	\$ 1.08
<b>Diluted earnings per share:</b>			
As reported	<b>\$ 1.01</b>	\$ 1.01	\$ 1.11
Pro forma	<b>\$ .95</b>	\$ .93	\$ 1.03

The following weighted average assumptions were used in the Black-Scholes option-pricing model used in developing the above pro forma information: a risk-free interest rate of 1.9% for fiscal year 2004, 1.8% for fiscal year 2003 and 3.8% for fiscal year 2002, respectively, an expected life of three years, no expected dividend yield and a volatility factor of 50% for fiscal years 2004, 2003 and 2002.

**SEGMENT REPORTING**

Reportable operating segments are components of an enterprise about which separate financial information is available that is evaluated by the chief operating decision maker in deciding how to allocate resources and in evaluating performance. The Company believes its restaurants meet the criteria supporting aggregation of all restaurants into one operating segment.

**Notes to Consolidated Financial Statements**

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. The diluted earnings per common share computation includes dilutive common share equivalents issued under the Company's various stock option plans and the dilutive convertible preferred stock outstanding only in fiscal 2002.

The computation of basic earnings per common share and diluted earnings per common share for each fiscal year is shown below (*in thousands*):

	<b>March 28, 2004</b>	<b>March 30, 2003</b>	<b>March 31, 2002</b>
Net income	\$ 9,239	\$ 9,473	\$ 8,829
Less preferred dividends			(5)
Income for computation of basic earnings per common share	<b>9,239</b>	9,473	8,824
Convertible preferred dividends (see Note 13)			5
Income for computation of diluted earnings per common share	<b>\$ 9,239</b>	\$ 9,473	\$ 8,829
Weighted average number of common shares in basic earnings per share	<b>8,887</b>	8,739	7,596
Effect of dilutive securities:			
stock options and warrants	<b>268</b>	670	336
convertible preferred shares			14
Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share	<b>9,155</b>	9,409	7,946

During fiscal years 2004, 2003 and 2002, stock options and warrants to purchase 1,502,000, 1,020,000 and 1,424,000 shares, respectively, of common stock were excluded from the calculation of diluted earnings per share since the effect would be considered antidilutive.

**NEW ACCOUNTING PRONOUNCEMENTS THAT MAY AFFECT OUR FINANCIAL REPORTING**

In December 2003, the Financial Accounting Standards Board ("FASB") revised and re-issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51", which was originally issued in January 2003. FIN No. 46 provides guidance on identifying variable interest entities ("VIE") and assessing whether or not a VIE should be consolidated. Variable interests are contractual, ownership or other monetary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An entity is considered to be a VIE when its capital is insufficient to permit it to finance its activities without additional subordinated financial support or its equity investors, as a group, lack the characteristics of having a controlling financial interest. FIN No. 46 requires the consolidation of entities which are determined to be VIE's when the reporting company determines that it will absorb a majority of the VIE's expected losses, receive a majority of the VIE's residual returns, or both. The company that is required to consolidate the VIE is called the primary beneficiary. As revised, the provisions of FIN No. 46 are to be applied to entities no later than the end of the first reporting period that ends after March 15, 2004. The Company does not have any relationships with or interests in entities considered to be special-purpose entities. The adoption of FIN No. 46 did not have an impact on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded into other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have an impact on our consolidated financial statements.

## Notes to Consolidated Financial Statements

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### NEW ACCOUNTING PRONOUNCEMENTS THAT MAY AFFECT OUR FINANCIAL REPORTING (cont.)

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires than an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on our consolidated financial statements.

### NOTE 2: ACQUISITION

The Company's financial statements and the discussion below reflect the acquisition by the Company of RA Sushi, a privately owned Arizona chain which operated four restaurants, on December 3, 2002.

The Company acquired the RA Sushi chain because it believed that the concept is a new and attractive one that would complement its other Asian-themed restaurants and provide further penetration in the market where diners seek attractively priced sushi and other entrees. The purchase price, which was determined based upon arm's length negotiations based principally upon a multiple of RA Sushi's earnings before interest, taxes, depreciation and amortization, paid in cash at closing was approximately \$11.4 million, along with the assumption of approximately \$1.2 million of debt and other costs of approximately \$0.5 million. The purchase agreement also included a contingent purchase price provision, which requires the Company to pay the seller contingent payments based on certain operating results of the acquired business for fiscal years ending 2004, 2005 and 2006. The acquisition has been accounted for using the purchase method of accounting and the operating results of RA Sushi have been included in the Company's consolidated statements of earnings since the date of acquisition. The Company determined that the fair value of the RA Sushi business and its cash flows were in excess of the fair value of the net assets acquired; accordingly, goodwill resulted from the acquisition. The excess of the purchase price over the acquired tangible and intangible net assets of approximately \$10.7 million was allocated to goodwill. The Company anticipates that all goodwill recorded in connection with the RA Sushi acquisition will be deductible for tax purposes.

In fiscal 2004, the Company recorded \$652,000 as additional goodwill for the contingent payment due for fiscal 2004. The contingent payments that will be incurred for results of the fiscal years ending 2005 and 2006 are not estimatable.

### NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable and payable, and accrued liabilities approximate fair value because of the short-term nature of the items. The carrying amounts of the Company's debt and other payables approximate fair value either due to their short-term nature or the variable rates associated with these debt instruments.

### NOTE 4: INVENTORIES

Inventories consist of (in thousands):

	March 28, 2004	March 30, 2003
Food and beverage	\$ 2,090	\$ 1,612
Supplies	4,057	3,716
	<u>\$ 6,147</u>	<u>\$ 5,328</u>

**Notes to Consolidated Financial Statements**

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

**NOTE 5: PROPERTY AND EQUIPMENT**

Property and equipment consist of *(in thousands)*:

	March 28, 2004	March 30, 2003
Land	\$ 12,324	\$ 11,159
Buildings	27,142	21,717
Leasehold improvements	79,417	66,102
Restaurant furniture, fixtures, and equipment	27,526	25,161
Restaurant facilities and equipment under capital leases	7,040	7,040
	<b>153,449</b>	131,179
Less accumulated depreciation and amortization (including accumulated amortization of restaurant facilities and equipment under capital leases of \$6,933 and \$6,792 in 2004 and 2003, respectively)	<b>59,653</b>	53,027
	<b>93,796</b>	78,152
Construction in progress	4,423	6,330
	<b>\$ 98,219</b>	\$ 84,482

**NOTE 6: OTHER ASSETS**

Other assets consist of *(in thousands)*:

	March 28, 2004	March 30, 2003
Lease acquisition costs, net	\$ 1,897	\$ 2,137
Security deposits	815	1,031
Premium on liquor licenses	1,025	981
Computer software costs, net	359	243
Deferred financing charges, net	219	365
Cash surrender value of life insurance policy	395	391
Long-term receivables	47	59
	<b>\$ 4,757</b>	\$ 5,207

**NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of *(in thousands)*:

	March 28, 2004	March 30, 2003
Accounts payable	\$ 5,298	\$ 6,129
Accrued payroll, incentive compensation and related taxes	3,864	3,867
Accrued health insurance costs	808	840
Sales taxes payable	1,138	1,178
Unredeemed gift certificates	1,383	1,161
Accrued percentage rent	1,015	1,078
Accrued property taxes	581	623
Straight-line rent accrual	1,967	1,531
Other accrued operating expenses	4,676	3,000
	<b>\$ 20,730</b>	\$ 19,407

**Notes to Consolidated Financial Statements**

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

**NOTE 8: RESTAURANT OPERATING EXPENSES**

Restaurant operating expenses consist of (*in thousands*):

	FISCAL YEAR ENDED		
	March 28, 2004	March 30, 2003	March 31, 2002
Labor and related costs	\$ 71,812	\$ 70,262	\$ 62,677
Restaurant supplies	3,945	3,630	3,368
Credit card discounts	791	1,010	317
Utilities	4,854	4,262	3,890
Occupancy costs	11,742	10,342	9,822
Depreciation and amortization	8,313	7,077	5,582
Other restaurant operating expenses	13,884	12,912	11,484
Total restaurant operating expenses	<u>\$ 118,015</u>	<u>\$ 111,725</u>	<u>\$ 99,707</u>

**NOTE 9: LEASE OBLIGATIONS**

The Company generally operates its restaurants in leased premises. The typical restaurant premises lease is for a term of between 15 to 25 years with renewal options ranging from 5 to 25 years. The leases generally provide for the obligation to pay property taxes, utilities, and various other use and occupancy costs. Rentals under certain leases are based on a percentage of sales in excess of a certain minimum level. Certain leases provide for increases based upon the changes in the consumer price index. The Company is also obligated under various leases for restaurant equipment and for office space and equipment.

Minimum payments under lease commitments are summarized below for capital and operating leases. The imputed interest rates used in the calculations for capital leases vary from 9.75% to 12% and are equivalent to the rates which would have been incurred at the time to borrow, over a similar term, the amounts necessary to purchase the leased assets.

The amounts of operating and capital lease obligations are as follows (*in thousands*):

FISCAL YEAR ENDING:	Operating Leases	Capital Leases
2005	\$ 8,674	\$ 289
2006	9,008	26
2007	8,728	
2008	8,675	
2009	8,756	
Thereafter	73,008	
Total minimum lease payments	<u>\$ 116,849</u>	315
Less amount representing interest		<u>16</u>
Total obligations under capital leases		299
Less current maturities		<u>273</u>
Long-term obligations under capitalized leases at March 28, 2004		<u>\$ 26</u>

Rental expense consists of (*in thousands*):

	March 28, 2004	March 30, 2003	March 31, 2002
Minimum rental commitments	\$ 9,711	\$ 8,191	\$ 7,804
Rental based on percentage of sales	2,324	2,404	2,273
	<u>\$12,035</u>	<u>\$ 10,595</u>	<u>\$10,077</u>

## Notes to Consolidated Financial Statements

Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002

### NOTE 10: LONG-TERM DEBT

Long-term debt consists of (*in thousands*):

	March 28, 2004	March 30, 2003
Term loan - bank	\$ 13,000	\$ 16,000
Revolving line of credit - bank	8,500	6,000
	<b>21,500</b>	22,000
Less current portion	3,000	3,000
	<b>\$ 18,500</b>	\$ 19,000

The Company has borrowings from Wachovia Bank, National Association (“Wachovia”) under a term loan and a revolving line of credit facility. The line of credit facility allows the Company to borrow up to \$15,000,000 through December 31, 2007. At March 28, 2004, the Company had \$6,500,000 available for borrowing under the revolving line of credit. The term loan had \$13,000,000 outstanding at March 28, 2004 and is payable in quarterly installments of \$750,000 through December 2004 and \$833,333 thereafter until the term loan matures in December 2007. The interest rate at March 28, 2004 of both the line of credit and the term loan was approximately 2.10%. The Company has the option to pay interest at Wachovia’s prime rate plus 1% or *libor* plus 1%. The interest rate may vary depending upon the ratio that the sum of earnings before interest, taxes, depreciation and amortization has to the Company’s total indebtedness. The loan agreements limit the Company’s capital expenditures to certain amounts, require that the Company maintain certain financial ratios and profitability amounts and prohibit the payment of cash dividends on common stock.

For the quarter ended March 28, 2004, the Company was not in compliance with a Consolidated EBITDA covenant of the Company’s credit agreement with Wachovia. The Company received a waiver from Wachovia to cure its noncompliance on May 25, 2004. There can be no assurance that such non-compliance will not occur in future periods or that, if it does, the Company’s lender will agree to waive any such future non-compliance.

Principal maturities of long-term debt obligations at March 28, 2004 are as follows:

FISCAL YEAR ENDING:	
2005	\$ 3,000
2006	3,333
2007	4,167
2008	11,000
Total	<b>\$ 21,500</b>

Notes to Consolidated Financial Statements

Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002

NOTE 11: INCOME TAXES

Deferred tax assets and liabilities reflect the tax effect of temporary differences between amounts of assets and liabilities for financial reporting purposes and the amounts of such assets and liabilities as measured by income tax law. A valuation allowance is recognized to reduce deferred tax assets to the amounts that are more likely than not to be realized.

The net deferred tax asset (liability) balance consists of (in thousands):

	MARCH 28, 2004			MARCH 30, 2003		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Amortization of gain	\$ 847	\$	\$ 847	\$ 887	\$	\$ 887
Tax loss carryforwards	301		301	733		733
Capital leases	123	46	77	309	129	180
Income tax credits	1,383		1,383	790		790
Gift certificates	554		554	464		464
Deferred compensation	296		296	241		241
Accelerated depreciation for tax purposes		3,307	(3,307)	1,151		(1,151)
Smallware inventory		764	(764)		705	(705)
Non-compete and severance agreement		399	(399)		361	(361)
Goodwill		379	(379)		94	(94)
Other	166	12	154	195	7	188
Total asset (liability)	\$ 3,670	\$ 4,907	\$(1,237)	\$ 3,619	\$ 2,447	\$ 1,172

As of March 28, 2004, the Company had available net operating loss carryforwards as a result of a 1997 acquisition amounting to \$752,000 for ordinary income tax purposes and is available to reduce future taxable income. The net operating loss carryforwards are subject to the change of control provisions of the Internal Revenue Code which limit the usage of the net operating loss carryforwards to approximately \$1,100,000 per year.

The income tax provision consists of (in thousands):

	FISCAL YEAR ENDED		
	March 28, 2004	March 30, 2003	March 31, 2002
Current:			
Federal	\$ 1,876	\$ 2,826	\$ 2,069
State	680	1,245	1,009
Deferred:			
Federal and State	2,409	791	1,010
Income tax provision	\$ 4,965	\$ 4,862	\$ 4,088

The income tax provision differed from the amount computed at the statutory rate as follows (in thousands):

	March 28, 2004	March 30, 2003	March 31, 2002
Federal income tax provision at statutory rate of 34%	\$ 5,057	\$ 4,917	\$ 4,421
State income taxes, net of federal benefit	899	822	663
Tax credits, net	(1,026)	(1,000)	(893)
Other	35	123	(103)
Income tax provision	\$ 4,965	\$ 4,862	\$ 4,088
Effective income tax rate	35.0%	33.9%	31.6%

## Notes to Consolidated Financial Statements

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

### NOTE 12: COMMITMENTS AND CONTINGENCIES

#### ACQUISITIONS

In December 1999, the Company completed the acquisition of 80% of the equity of Haru Holding Corp. ("Haru"). The acquisition was accounted for using the purchase method of accounting. Pursuant to the purchase agreement, at any time during the period of July 1, 2005 through September 30, 2005, the holders of the balance of Haru's equity (the "Minority Stockholders") shall have a one-time option to sell their shares to the Company. Provided that the Minority Stockholders do not exercise their right to sell their shares, then the Company has a one-time option to purchase the shares of the Minority Stockholders between the period of October 1, 2005 and December 31, 2005. The price for both the put and call options will be determined based on a defined cash flow measure for the acquired business.

In December 2002, the Company completed the acquisition of RA Sushi restaurants. The acquisition was accounted for using the purchase method of accounting. Pursuant to the purchase agreement, the Company is required to pay the seller contingent payments based on certain operating results of the acquired business for fiscal years ending 2004, 2005 and 2006. The contingent payments are based upon the achievement of stipulated levels of operating earnings and revenues by the acquired restaurants over a three-year period commencing with the end of fiscal 2004 and are not contingent on the continued employment of the sellers of the restaurants. The minimum contingent payment levels were met in fiscal 2004 and a liability has been recorded for \$652,000, which amount is accounted for as an addition to the purchase price. Contingent payments that will be incurred for results for the fiscal years ending 2005 and 2006 are not estimatable.

#### LITIGATION

The Company is not a party to any material litigation matters other than routine claims which are incidental to its business.

### NOTE 13: STOCKHOLDERS' EQUITY

#### PREFERRED STOCK

The Company had a series A preferred stock which was outstanding in fiscal 2002. The preferred stock had a liquidation preference of \$1,000 per share, carried a cumulative dividend of 6% and entitled the holder a right to convert into shares of the Company's Class A Common Stock. In fiscal 2002, the holder converted all of the preferred stock to 105,267 shares of Class A Common Stock.

#### COMMON AND CLASS A COMMON STOCK

The Company's Common Stock is convertible into Class A Common Stock on a one-for-one basis. The Class A Common Stock is identical to the Common Stock except that it gives the holder one-tenth (1/10) vote per share, voting together with the Company's Common Stock as a single class on all matters except the election of directors. For election of directors, the Class A Common Stockholders vote as a class to elect 25% of the members of the Board of Directors.

#### STOCK DIVIDEND

On June 7, 2002, the Board of Directors declared a 15% stock dividend in Class A stock on both the Class A shares and Common shares. The stock dividend was paid on August 12, 2002 to holders of record July 15, 2002.

#### STOCK OPTIONS

The Company has various stock option plans: a 1996 Class A Stock Option Plan (1996 Plan), a 1997 Class A Stock Option Plan (1997 Plan), a 2000 Class A Stock Option Plan (2000 Plan), a Directors' Stock Option Plan (Directors' Plan), Directors' Class A Stock Option Plan (Directors' Class A Plan) and a 2003 Directors' Stock Option Plan (2003 Directors' Plan), under all of which a maximum of 3,085,000 shares of the Company's Common Stock and Class A Common Stock were authorized for grant and for all of which options for 1,101,493 shares remain available for grant.

Options granted under the 1996, 1997 and 2000 Plans have a term of ten years from date of issuance, and are exercisable ratably over a three-year period commencing with the date of the grant. Options granted under these plans require that the exercise price be at market value on the date of the grant, or for optionees that own more than 10% of the combined voting rights of the Company, at 110% of market value for incentive stock options.

Notes to Consolidated Financial Statements

Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002

NOTE 13: STOCKHOLDERS' EQUITY (cont.)

STOCK OPTIONS

There are 17,500 shares of Common stock available for grant under the Directors Plan. There are no shares available for grant under the Directors Class A Plan. Under the 2003 Directors' Plan, options to purchase 10,000 shares of Class A Common Stock are automatically granted to each of the Company's non-employee directors on the date of the Company's annual meeting. Options granted under the 2003 Directors' Plan are exercisable ratably as to one-third of the shares on the date which is six months after the date of grant, one-third of the shares on the first anniversary of the grant of such option and as to the balance of such shares on the second anniversary of grant of such option.

The following table summarizes information about fixed-price stock options outstanding at March 28, 2004:

Ranges of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 6.14 - \$ 7.44	344,021	5.8	\$ 7.07	344,021	\$ 7.07
7.83 - 8.31	73,564	2.9	7.96	73,564	7.96
9.89 - 10.65	456,071	4.0	10.35	456,071	10.35
11.03 - 16.78	853,797	7.2	13.34	687,880	13.13
	<u>1,727,453</u>			<u>1,561,536</u>	

Transactions under the above plans for the years ended are as follows:

	March 28, 2004	March 30, 2003	March 31, 2002
Balance, beginning of year	1,762,709	1,435,046	1,426,938
Issued from stock dividend		216,028	
Granted	85,000	300,000	220,000
Canceled			(28,813)
Expired (29,673)	(4,313)	(500)	
Exercised	(115,943)	(187,865)	(153,406)
Balance, end of year	<u>1,727,453</u>	<u>1,762,709</u>	<u>1,435,046</u>

STOCK RIGHTS

The Company has a Shareholder Rights Plan under which a Preferred Share Purchase Right (Right) is represented by outstanding shares of the Company's Common and Class A Common Stock. The Rights operate to create substantial dilution to a potential acquirer who seeks to make an acquisition, the terms of which the Company's Board of Directors believes is inadequate or structured in a coercive manner.

The Rights become exercisable on the tenth day (or such later date as the Board of Directors may determine) after public announcement that a person or a group (subject to certain exceptions) has acquired 20% or more of the outstanding Common Stock or an announcement of a tender offer that would result in beneficial ownership by a person or a group of 20% or more of the Common Stock.

## Notes to Consolidated Financial Statements

Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002

### NOTE 14: INCENTIVE AND DEFERRED COMPENSATION PLANS

The Company has an incentive compensation plan whereby bonus awards are made if the Company attains a certain targeted return on its opening equity or at the discretion of the Compensation Committee. The purpose of the plan is to improve the long-term sustainable results of operations of the Company by more fully aligning the interests of management and key employees with the shareholders of the Company. One-third of the amounts awarded are immediately made available to the employee and the remaining two-thirds become available ratably over the succeeding two years. Amounts allocated under the Plan may be taken in cash or deferred in a non-qualified deferred compensation plan. The target rate, which was 15.0% for 2004, 15.0% for 2003 and 15.5% for 2002, is approved annually based upon a review of the rates of return on equity of other publicly traded restaurant businesses by the Compensation Committee of the Board of Directors. The amount of the awards is capped at 50% of the eligible salary of the employee. The Company recorded \$125,000, \$350,000 and \$300,000 of incentive compensation expense for fiscal years 2004, 2003 and 2002, respectively.

The Company has an executive retirement plan whereby certain key employees may elect to defer up to 20% of their salary and 100% of their bonus until retirement or age 55, whichever is later, or due to disability or death. Employees may select from various investment options for their available account balances. Investment earnings are credited to their accounts.

### NOTE 15: QUARTERLY FINANCIAL DATA (Unaudited)

Fiscal quarter ended (in thousands except for per share information):

	MARCH 28, 2004				MARCH 30, 2003			
	Fourth	Third	Second	First	Fourth	Third	Second	First
REVENUES	\$ 50,654	\$ 46,972	\$ 44,235	\$ 61,102	\$ 46,305	\$ 43,822	\$ 41,958	\$ 57,159
GROSS PROFIT	37,723	34,511	32,693	44,971	32,154	30,254	27,649	37,240
NET INCOME	2,915	1,910	1,462	2,952	3,063	2,168	1,452	2,790
BASIC EARNINGS PER SHARE	\$ .32	\$ .21	\$ .17	\$ .34	\$ .35	\$ .25	\$ .17	\$ .32
DILUTED EARNINGS PER SHARE	\$ .31	\$ .21	\$ .16	\$ .33	\$ .33	\$ .24	\$ .16	\$ .30

## Notes to Consolidated Financial Statements

*Fiscal Years Ended March 28, 2004, March 30, 2003 and March 31, 2002*

### NOTE 16: SUBSEQUENT EVENTS

The Company has entered into an agreement to sell \$20,000,000 aggregate principal amount of Convertible Preferred Stock ("Convertible Preferred Stock") to BFC Financial Corporation ("BFC") in a private placement. BFC is a diversified holding company with operations in banking, real estate and other industries. A director of the Company is also Vice Chairman, a director and a significant shareholder of BFC.

The Convertible Preferred Stock will be convertible into common shares of the Company at a conversion price of \$19.00 per share, will carry a cash dividend of 5.0% and will vote on an "as if converted" basis together with the Company's Common stock on all matters put to a vote of the holders of Common Shares. In addition, under certain circumstances, the approval of the holders of a majority of the Convertible Preferred Stock will be required for certain events outside the ordinary course of business.

The closing of the transaction, which is subject to the execution of definitive documentation and customary closing conditions, is expected to occur in the first quarter of fiscal 2005. The Company expects to receive \$10,000,000 of this financing at the closing, with the balance to be provided from time to time during the two-year period commencing on the first anniversary of the closing.

The holders of the Convertible Preferred Stock will be entitled to nominate one director at all times and one additional director in the event that dividends are not paid for two consecutive quarters.

The Convertible Preferred Stock will be subject to redemption at its original issue price ten years from the date of closing and, at the Company's option, may be redeemed for cash or common shares valued at then-current market prices. In addition, the Convertible Preferred Stock may be redeemed at any time beginning three years from the date of issue if the price of the common shares is at least \$38.00 for sixty consecutive trading days.

The Company has been advised that on or about June 10, 2004, three of the four trustees of the trust which owns Benihana of Tokyo, Inc. ("BOT"), a privately held company which owns 50.9% of the Company's outstanding Common Stock, intend to cause BOT to adopt resolutions declaring that this equity financing transaction is not in the best interest of BOT and authorizing BOT to commence a lawsuit against the Company and certain members of its Board of Directors with respect to the financing. The Company believes that the financing complies with all applicable legal and regulatory requirements and believes there is no basis for a threatened suit. However, there can be no assurance that such claim might not frustrate or delay the consummation of such financing or result in a claim for damages.

## Report of Independent Registered Public Accounting Firm

**Deloitte  
& Touche**

To the Board of Directors and Stockholders of Benihana Inc.:

We have audited the accompanying consolidated balance sheets of Benihana Inc. and subsidiaries (“Benihana”) as of March 28, 2004 and March 30, 2003, and the related consolidated statements of earnings, stockholders’ equity and cash flows for each of the three years in the period ended March 28, 2004. These consolidated financial statements are the responsibility of Benihana’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of Benihana as of March 28, 2004 and March 30, 2003, and the results of its operations and its cash flows for each of the three years in the period ended March 28, 2004 in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP  
Certified Public Accountants

Miami, Florida  
June 11, 2004

## Common Stock Information

The Company's Common Stock and Class A Common Stock are traded on the Nasdaq National Market System. There were 206 holders of record of the Company's Common Stock and 477 holders of record of the Class A Common Stock at March 28, 2004.

The table below sets forth high and low bid prices for the Company's Common Stock and Class A Common Stock, which do not include commissions and mark-ups or mark-downs for the periods indicated. Such bid prices reflect inter-dealer prices without retail mark-ups, markdowns or commissions and may not necessarily represent actual transactions.

	FISCAL YEAR ENDED			
	MARCH 28, 2004		MARCH 30, 2003	
	High	Low	High	Low
<b>COMMON STOCK</b> <sup>(1)</sup>				
1ST QUARTER	13.85	9.00	20.32	13.91
2ND QUARTER	13.11	10.45	16.42	10.26
3RD QUARTER	14.52	11.30	15.04	11.31
4TH QUARTER	17.08	12.80	13.31	9.36

	FISCAL YEAR ENDED			
	MARCH 28, 2004		MARCH 30, 2003	
	High	Low	High	Low
<b>CLASS A COMMON STOCK</b> <sup>(1)</sup>				
1ST QUARTER	13.84	8.95	19.77	13.76
2ND QUARTER	13.25	10.67	16.25	10.30
3RD QUARTER	14.21	10.95	14.98	11.59
4TH QUARTER	17.20	12.40	13.49	9.34

The Class A Common Stock is identical to the Common Stock except that it gives the holder one-tenth (1/10) vote per share, voting together with the Company's Common Stock as a single class on all matters except the election of directors. For election of directors, the Class A Common stockholders vote as a class to elect 25% of the members of the Board of Directors.

The Company has not declared or paid a cash dividend on common equity since its organization and has no present intention of paying any such dividend in the foreseeable future. The Company intends to retain all available cash for the operation and expansion of its business. In addition, the Company's present loan agreement restricts the payment of cash dividends on common stock.

On June 7, 2002, the Board of Directors declared a 15% stock dividend in Class A stock on both the Class A shares and common shares. The stock dividend was paid on August 12, 2002 to holders of record July 15, 2002.

<sup>(1)</sup> The high and low prices have been adjusted to reflect the aforementioned stock dividend for all periods presented prior to the second quarter of fiscal 2003.



## The Benihana Restaurant Group

The Benihana family of restaurants offers a sumptuous variety of the finest Japanese cuisine to be found in the west.

From the heightened experience of Benihana, where most Americans had their first taste of Japanese food, to the breathlessly delicious and comfortably elegant fusion of Haru, to the funky and flashy scenes at Doraku and RA, our restaurants treat you to fabulous dining served in uniquely pleasing settings.



JAPANESE FUSION CUISINE



Pacific Rim Cuisine



芭蕉

紅の花

行く末は  
誰か肌ふれん

Benihana Group Restaurant Locations 2004



**70 COMPANY OWNED RESTAURANTS**

- |                          |                      |                           |
|--------------------------|----------------------|---------------------------|
| SCOTTSDALE, AZ           | ATLANTA II, GA       | HOUSTON II, TX            |
| ANAHEIM, CA              | ALPHARETTA, GA       | LAS COLINAS, TX           |
| BURLINGAME, CA           | CHICAGO, IL          | SUGARLAND, TX             |
| CITY OF INDUSTRY, CA     | LOMBARD, IL          | WOODLANDS, TX             |
| CARLSBAD, CA             | SCHAUMBURG, IL       | SALT LAKE CITY, UT        |
| CONCORD, CA              | WHEELING, IL         | RA SUSHI - AHWATUKEE, AZ  |
| CUPERTINO, CA            | INDIANAPOLIS, IN     | RA SUSHI - TEMPE, AZ      |
| ENCINO, CA               | BETHESDA, MD         | RA SUSHI - TUCSON, AZ     |
| MONTEREY, CA             | DEARBORN, MI         | RA SUSHI - SCOTTSDALE, AZ |
| NEWPORT BEACH, CA        | FARMINGTON HILLS, MI | RA SUSHI - KIERLAND, AZ   |
| ONTARIO, CA              | TROY, MI             | RA SUSHI - SAN DIEGO, CA  |
| SACRAMENTO, CA           | GOLDEN VALLEY, MN    | RA SUSHI - CHICAGO, IL    |
| SAN DIEGO, CA            | SHORT HILLS, NJ      | HARU AMSTERDAM, NY        |
| SAN FRANCISCO, CA        | PENNSAUKEN, NJ       | HARU THIRD AVENUE, NY     |
| SANTA MONICA, CA         | MANHASSET, NY        | HARU TOO, NY              |
| TORRANCE, CA             | NEW YORK EAST, NY    | HARU BROADWAY, NY         |
| DENVER, CO               | NEW YORK WEST, NY    | HARU PARK AVENUE, NY      |
| WASHINGTON D.C.          | WESTBURY, NY         |                           |
| FT. LAUDERDALE, FL       | CINCINNATI I, OH     |                           |
| LAKE BUENA VISTA, FL     | CINCINNATI II, OH    |                           |
| SOUTH BEACH, FL (DORAKU) | CLEVELAND, OH        |                           |
| NORTH BAY VILLAGE, FL    | BEAVERTON, OR        |                           |
| MIAMI, FL - SAMURAI      | PITTSBURGH, PA       |                           |
| KENDALL, FL              | MEMPHIS, TN          |                           |
| STUART, FL               | DALLAS, TX           |                           |
| ATLANTA I, GA            | DALLAS, TX           |                           |
|                          | HOUSTON I, TX        |                           |

**5 UNDER DEVELOPMENT**

- CORAL GABLES, FL
- HARU MANHATTAN
- HARU PHILADELPHIA
- RA SUSHI - HUNTINGTON BCH, CA
- RA SUSHI - LAS VEGAS, NV

**22 BENIHANA FRANCHISE RESTAURANTS**

- |                       |                       |                      |
|-----------------------|-----------------------|----------------------|
| ANCHORAGE, AK         | HARRISBURG, PA        | CARACAS IV VENEZUELA |
| NORTH LITTLE ROCK, AR | AUSTIN, TX            | LIMA, PERU           |
| BEVERLY HILLS, CA     | SAN ANTONIO, TX       | LIMA, PERU II        |
| BROOMFIELD, CO        | SEATTLE, WA           | SANTIAGO, CHILE      |
| KEY WEST, FL          | MILWAUKEE, WI         |                      |
| HONOLULU, HI          | ARUBA                 |                      |
| EDISON, NJ            | CARACAS I VENEZUELA   |                      |
| LAS VEGAS, NV         | CARACAS II VENEZUELA  |                      |
| RENO, NV              | CARACAS III VENEZUELA |                      |

**3 UNDER DEVELOPMENT**

- EL SALVADOR
- GUATEMALA
- TRINIDAD & TOBAGO

**CARIBBEAN & SOUTH AMERICA**





**BENIHANA<sup>®</sup> inc.**

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