

NATHANS FAMOUS INC  
Form 10-Q  
August 05, 2016  
**FORM 10-Q**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended **June 26, 2016**.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission file number 0-3189**

**NATHAN'S FAMOUS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**11-3166443**

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

**One Jericho Plaza, Second Floor – Wing A, Jericho, New York 11753**

(Address of principal executive offices)

(Zip Code)

**(516) 338-8500**

(Registrant's telephone number, including area code)

---

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

At August 5, 2016, an aggregate of 4,172,055 shares of the registrant's common stock, par value of \$.01, were outstanding.



**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**INDEX

	<u>Page Number</u>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements.	3
Consolidated Financial Statements	
Consolidated Balance Sheets – June 26, 2016 (Unaudited) and March 27, 2016	3
Consolidated Statements of Earnings (Unaudited) - Thirteen Weeks Ended June 26, 2016 and June 28, 2015	4
Consolidated Statements of Comprehensive Income (Unaudited) – Thirteen Weeks Ended June 26, 2016 and June 28, 2015	5
Consolidated Statement of Stockholders' (Deficit) (Unaudited) – Thirteen Weeks Ended June 26, 2016	6
Consolidated Statements of Cash Flows (Unaudited) – Thirteen Weeks Ended June 26, 2016 and June 28, 2015	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	25
Item 4. Controls and Procedures.	26
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings.	27
Item 1A. Risk Factors.	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	27
Item 3. Defaults Upon Senior Securities.	27
Item 4. Mine Safety Disclosures.	27

Item 5.	Other Information.	27
Item 6.	Exhibits.	28
SIGNATURES		29
Exhibit Index		30

**Nathan's Famous, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

June 26, 2016 and March 27, 2016

(in thousands, except share and per share amounts)

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

	<b>June 26, 2016</b>	March 27, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$52,838</b>	\$50,228
Accounts and other receivables, net	<b>12,890</b>	8,721
Inventories	<b>790</b>	687
Prepaid expenses and other current assets (Note G)	<b>658</b>	1,343
Total current assets	<b>67,176</b>	60,979
Property and equipment, net of accumulated depreciation of \$7,538 and \$7,190, respectively	<b>8,943</b>	9,013
Goodwill	<b>95</b>	95
Intangible asset	<b>1,353</b>	1,353
Other assets	<b>94</b>	109
	<b>\$77,661</b>	\$71,549
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	<b>\$5,758</b>	\$4,887
Accrued expenses and other current liabilities (Note H)	<b>9,415</b>	6,176
Deferred franchise fees	<b>87</b>	137
Total current liabilities	<b>15,260</b>	11,200
Long-term debt, net of unamortized debt discounts and issuance costs of \$4,423 and \$4,734, respectively (Note M)	<b>130,577</b>	130,266
Other liabilities	<b>1,486</b>	1,706
Deferred income taxes	<b>884</b>	713

Total liabilities	<b>148,207</b>	143,885
COMMITMENTS AND CONTINGENCIES (Note N)		
STOCKHOLDERS' (DEFICIT)		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,299,428 and 9,274,066 shares issued; and 4,172,055 and 4,177,309 shares outstanding at June 26, 2016 and March 27, 2016, respectively	<b>93</b>	93
Additional paid-in capital	<b>60,462</b>	60,950
Accumulated (deficit)	<b>(53,798 )</b>	(57,348 )
	<b>6,757</b>	3,695
Treasury stock, at cost, 5,127,373 and 5,096,757 shares at June 26, 2016 and March 27, 2016, respectively	<b>(77,303 )</b>	(76,031 )
Total stockholders' (deficit)	<b>(70,546 )</b>	(72,336 )
	<b>\$77,661</b>	\$71,549

*The accompanying notes are an integral part of these statements.*

**Nathan's Famous, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF EARNINGS**

Thirteen weeks ended June 26, 2016 and June 28, 2015

(in thousands, except share and per share amounts)

(Unaudited)

	<b>June 26, 2016</b>	June 28, 2015
<b>REVENUES</b>		
Sales	<b>\$21,262</b>	\$22,891
License royalties	<b>6,824</b>	6,536
Franchise fees and royalties	<b>1,330</b>	1,227
Total revenues	<b>29,416</b>	30,654
<b>COSTS AND EXPENSES</b>		
Cost of sales	<b>15,458</b>	18,106
Restaurant operating expenses	<b>938</b>	969
Depreciation and amortization	<b>347</b>	339
General and administrative expenses	<b>3,849</b>	3,624
Total costs and expenses	<b>20,592</b>	23,038
Income from operations	<b>8,824</b>	7,616
Interest expense	<b>(3,676)</b>	(3,709)
Interest income	-	5
Other income, net	<b>22</b>	26
Income before provision for income taxes	<b>5,170</b>	3,938
Provision for income taxes	<b>1,620</b>	1,628
Net income	<b>\$3,550</b>	\$2,310
<b>PER SHARE INFORMATION</b>		
Income per share:		
Basic	<b>\$.85</b>	\$.50
Diluted	<b>\$.85</b>	\$.50
Weighted average shares used in computing income per share:		
Basic	<b>4,166,000</b>	4,584,000
Diluted	<b>4,191,000</b>	4,621,000



*The accompanying notes are an integral part of these statements.*

-4-

---

**Nathan's Famous, Inc. and Subsidiaries**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Thirteen weeks ended June 26, 2016 and June 28, 2015

(in thousands)

(Unaudited)

	<b>June 26, 2016</b>	June 28, 2015
Net income	<b>\$3,550</b>	\$2,310
Other comprehensive loss, net of deferred income taxes:		
Unrealized losses on marketable securities	(- )	(5 )
Other comprehensive loss	(- )	(5 )
Comprehensive income	<b>\$3,550</b>	\$2,305

*The accompanying notes are an integral part of these statements.*

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT)

Thirteen weeks ended June 26, 2016

(in thousands, except share amounts)

(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	(Accumulated Deficit)	Treasury Stock, at Cost Shares	Amount	Total Stockholders' (Deficit)
Balance, March 27, 2016	9,274,066	\$ 93	\$ 60,950	\$ (57,348 )	5,096,757	\$(76,031)	\$(72,336 )
Shares issued in connection with share-based compensation plans	<b>25,362</b>	-	<b>44</b>				<b>44</b>
Withholding tax on net share settlement of share-based compensation plans			<b>(705 )</b>				<b>(705 )</b>
Repurchase of common stock					<b>30,616</b>	<b>(1,272 )</b>	<b>(1,272 )</b>
Share-based compensation			<b>173</b>				<b>173</b>
Net income	-	-	-	<b>3,550</b>	-	-	<b>3,550</b>
<b>Balance, June 26, 2016</b>	<b>9,299,428</b>	<b>\$ 93</b>	<b>\$ 60,462</b>	<b>\$ (53,798 )</b>	<b>5,127,373</b>	<b>\$(77,303)</b>	<b>\$(70,546 )</b>

*The accompanying notes are an integral part of this statement.*

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Thirteen weeks ended June 26, 2016 and June 28, 2015

(in thousands)

(Unaudited)

	<b>June 26, 2016</b>	June 28, 2015
Cash flows from operating activities:		
Net income	<b>\$3,550</b>	\$2,310
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	<b>347</b>	339
Amortization of bond premium	-	68
Amortization of debt discounts and issuance costs	<b>311</b>	297
Share-based compensation expense	<b>173</b>	203
Income tax benefit on stock option exercises	<b>621</b>	-
Provision for doubtful accounts	-	16
Deferred income taxes	<b>171</b>	35
Changes in operating assets and liabilities:		
Accounts and other receivables, net	<b>(4,169 )</b>	(3,059 )
Inventories	<b>(103 )</b>	(298 )
Prepaid expenses and other current assets	<b>685</b>	3,172
Other assets	<b>15</b>	4
Accounts payable, accrued expenses and other current liabilities	<b>3,614</b>	3,635
Deferred franchise fees	<b>(50 )</b>	98
Other liabilities	<b>(220 )</b>	(204 )
Net cash provided by operating activities	<b>4,945</b>	6,616
Cash flows from investing activities:		
Proceeds from sale and maturities of available-for-sale securities	-	3,070
Purchase of property and equipment	<b>(277 )</b>	(154 )
Purchase of available-for-sale securities	-	(3,887 )
Net cash (used in) investing activities	<b>(277 )</b>	(971 )
Cash flows from financing activities:		
Income tax benefit on stock option exercises	-	65
Proceeds from exercise of stock options	<b>44</b>	44

Edgar Filing: NATHANS FAMOUS INC - Form 10-Q

Dividends paid upon vesting of restricted stock	(125 )	(125 )
Payments of withholding tax on net share settlement of share-based compensation plans	(705 )	(59 )
Repurchase of treasury stock	(1,272 )	(5,360 )
Net cash (used in) financing activities	(2,058 )	(5,435 )
Net increase in cash and cash equivalents	2,610	210
Cash and cash equivalents, beginning of period	50,228	51,393
Cash and cash equivalents, end of period	\$52,838	\$51,603
Cash paid during the period for:		
Interest	\$-	\$-
Income taxes paid (refunded)	\$453	\$(1,453 )

*The accompanying notes are an integral part of these statements.*

## **NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 26, 2016

(Unaudited)

#### **NOTE A - BASIS OF PRESENTATION**

The accompanying consolidated financial statements of Nathan's Famous, Inc. and subsidiaries (collectively "Nathan's," the "Company," "we," "us" or "our") as of and for the thirteen week periods ended June 26, 2016 and June 28, 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America. The unaudited financial statements include all adjustments (consisting of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of financial condition, results of operations and cash flows for the periods presented. However, our results of operations are seasonal in nature, and the results of any interim period are not necessarily indicative of results for any other interim period or the full fiscal year.

Certain information and footnote disclosures normally included in financial statements in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the requirements of the Securities and Exchange Commission. Management believes that the disclosures included in the accompanying consolidated interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the consolidated financial statements and notes thereto included in Nathan's Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

A summary of the Company's significant accounting policies is identified in Note B of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 27, 2016. There have been no changes to the Company's significant accounting policies subsequent to March 27, 2016.

#### **NOTE B – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

In March 2016, the Financial Accounting Standards Board (the "FASB"), issued new guidance which addresses how companies account for certain aspects of its share-based payments to employees. The update simplifies the accounting for the tax consequences. It also amends how excess tax benefits and a company's payments to cover the tax bills for the shares' recipients should be classified on the statement of cash flows related to share-based payments to employees. The amendments allow companies to estimate the number of stock awards they expect to vest, and they revised the withholding requirements for classifying stock awards as equity. Previously, tax withheld was permitted only at the minimum statutory tax rates, which is being amended to permit higher income tax withholding as long as it does not

exceed the maximum statutory tax rate for an employee in the applicable jurisdictions. This new standard will be effective for public companies with fiscal years beginning after December 15, 2016 which will be Nathan's first quarter ending (June 2017) of our fiscal year ending in March 2018. However, early adoption is permitted.

The Company elected to early adopt this standard in the quarter ended June 26, 2016. The impact of the early adoption resulted in the Company recording a tax benefit of \$621,000 within income tax expense for the thirteen weeks ended June 26, 2016 related to the excess tax benefit on stock incentive awards that settled during the quarter. Prior to adoption of this guidance, this amount would have increased additional paid-in capital. These items shall not be factored into the projected annual income tax rate, but will be treated as discrete items when they occur. Accordingly, this new treatment will add additional volatility in the Company's effective tax rate.

The excess tax benefits for the thirteen weeks ended June 28, 2015 were \$65,000 which increased additional paid-in-capital.

The Company accounts for forfeitures as they occur. Under the new guidance, excess tax benefits related to employee share-based payments are classified as operating activities in the statement of cash flows for the thirteen weeks ended June 26, 2016 of \$621,000. The Company applied the effect of the guidance to the presentation of excess tax benefits in the statement of cash flows prospectively and no prior periods have been adjusted. The Company did not record any cumulative-effect adjustment to accumulated deficit or net assets as a result of adopting this new accounting standard. The Company also modified its diluted earnings per shares calculation by excluding the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the quarter ended June 26, 2016.

#### NOTE C – NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the FASB issued a new accounting standard that attempts to establish a uniform basis for recording income to virtually all industries financial statements, under U.S. GAAP as amended in March 2016 and April 2016. The FASB issued two updates to the standard clarifying reporting revenue between Principle versus Agent and clarification in determining performance obligations and licenses guidance. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. In order to accomplish this objective, companies must evaluate the following five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. There are three basic transition methods that are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. guidance at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. Prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. guidance. Early adoption is

prohibited. Public companies were originally expected to apply the new standard for annual periods beginning after December 15, 2016, including interim periods therein, which for Nathan's would have been its first quarter of fiscal 2018, beginning on March 27, 2017. On May 12, 2015 the FASB issued a second proposed update to the standard clarifying the distinction between revenue from licenses of intellectual property that represent a promise to deliver a good or service over time versus a promise to be satisfied at a point in time. On July 9, 2015, the FASB agreed to delay the standard's effective date to annual reporting periods beginning after December 15, 2017 which will now be our first quarter (June 2018) of our fiscal year ending March 31, 2019. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations. The Company does not believe that the standard will impact its recognition of revenue for its Branded Product Program, Company-operated restaurants or its recognition of royalties from its franchised restaurants or retail licenses, which are based on a percentage of sales. The Company is continuing to evaluate the impact the adoption of this standard will have on the recognition of fees received from international development fees from the sales of exclusive territorial rights, initial fees from franchises for new restaurant openings or extended franchise terms.



In August 2014, the FASB issued new guidance that requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions exist, management will be required to include disclosures enabling users to understand those conditions and management's plans to alleviate or mitigate those conditions. This new standard is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 16, 2016. This standard will take effect in Nathan's fourth quarter of our fiscal year ending March 26, 2017. Nathan's does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In July 2015, the FASB updated U.S. accounting guidance to simplify the ways businesses measure inventory. Companies that use the first-in, first-out (FIFO) method or the average cost method will measure inventory at the lower of its cost or net realizable value. Net realizable value is the estimated selling price in the normal course of business, minus the cost of completion, disposal, and transportation. Companies will no longer consider replacement cost or net realizable value less a normal profit margin when measuring inventory. This new standard is effective for annual reporting periods beginning after December 15, 2016 which will be our first quarter (June 2017) of our fiscal year ending March 25, 2018. Nathan's does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In February 2016, the FASB issued a new accounting standard on leases. The new standard, among other changes, will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs (e.g. commissions). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. This standard is required to take effect in Nathan's first quarter ending (June 2019) of our fiscal year ending March 29, 2020. The adoption will require a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest period presented. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

The Company does not believe that any other recently issued, but not yet effective accounting standards, when adopted, will have a material effect on the accompanying financial statements.

## NOTE D – INCOME PER SHARE

Basic income per common share is calculated by dividing income by the weighted-average number of common shares outstanding and excludes any dilutive effect of stock options. Diluted income per common share gives effect to all potentially dilutive common shares that were outstanding during the period. Dilutive common shares used in the computation of diluted income per common share result from the assumed exercise of stock options and warrants, as determined using the treasury stock method.

The following chart provides a reconciliation of information used in calculating the per-share amounts for the thirteen-week periods ended June 26, 2016 and June 28, 2015, respectively.

**Thirteen weeks**

	Net Income		Number of Shares		Net Income Per Share	
	<b>2016</b>	2015	<b>2016</b>	2015	<b>2016</b>	2015
	(in thousands)		(in thousands)			
<b><u>Basic EPS</u></b>						
Basic calculation	<b>\$3,550</b>	\$2,310	<b>4,166</b>	4,584	<b>\$0.85</b>	\$0.50
Effect of dilutive employee stock options	-	-	<b>25</b>	37	-	-
<b><u>Diluted EPS</u></b>						
Diluted calculation	<b>\$3,550</b>	\$2,310	<b>4,191</b>	4,621	<b>\$0.85</b>	\$0.50

There were no options to purchase shares of common stock for the thirteen week periods ended June 26, 2016 and June 28, 2015 that were excluded from the computation of diluted earnings per share.

## NOTE E – FAIR VALUE MEASUREMENTS

Nathan's follows a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market

Level 2 - inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability

At June 26, 2016 and March 27, 2016, we did not have any marketable securities that were valued at fair value.

The Company's long-term debt had a carrying value of \$135,000,000 as of June 26, 2016 and a fair value of \$145,000,000 as of June 26, 2016. The Company estimates the fair value of its long-term debt based upon review of observable pricing in secondary markets as of the last trading day of the fiscal period. Accordingly, the Company classifies its long-term debt as Level 2.

The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of the instruments.

Certain non-financial assets and liabilities are measured at fair value on a non-recurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At June 26, 2016, no fair value adjustment or material fair value measurements were required for non-financial assets or liabilities.

## NOTE F – ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables, net, consist of the following (in thousands):

	<b>June 26, 2016</b>	March 27, 2016
Branded product sales	<b>\$7,839</b>	\$5,689
Franchise and license royalties	<b>3,887</b>	2,592
Other	<b>1,629</b>	911
	<b>13,355</b>	9,192
Less: allowance for doubtful accounts	<b>465</b>	471
Accounts and other receivables, net	<b>\$12,890</b>	\$8,721

Accounts receivable are due within 30 days and are stated at amounts due from franchisees, retail licensees and Branded Product Program customers, net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are generally considered past due. The Company does not recognize franchise and license royalties that are not deemed to be realizable.

The Company individually reviews each past due account and determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current and expected future ability to pay its obligation to the Company, the condition of the general economy and the industry as a whole. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings. After the Company has used reasonable collection efforts it writes off accounts receivable through a charge to the allowance for doubtful accounts.

Changes in the Company's allowance for doubtful accounts for the thirteen-week period ended June 26, 2016 and the fiscal year ended March 27, 2016 are as follows (in thousands):

	<b>June 26, 2016</b>	March 27, 2016
Beginning balance	<b>\$471</b>	\$ 443

Bad debt expense	-	38
Accounts written off	(6 )	(10 )
Ending balance	<b>\$465</b>	\$ 471

NOTE G – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (in thousands):

	<b>June</b>	March
	<b>26,</b>	27,
	<b>2016</b>	2016
Income taxes	\$-	\$211
Insurance	<b>286</b>	488
Other	<b>372</b>	644
	<b>\$658</b>	\$1,343

## NOTE H – ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER LIABILITIES

Accrued expenses and other current liabilities consist of the following (in thousands):

	<b>June</b>	March
	<b>26,</b>	27,
	<b>2016</b>	2016
Payroll and other benefits	<b>\$1,490</b>	\$2,919
Accrued rebates	<b>1,282</b>	940
Rent and occupancy costs	<b>205</b>	218
Deferred revenue	<b>434</b>	679
Construction costs	<b>230</b>	183
Interest	<b>3,871</b>	507
Professional fees	<b>132</b>	101
Income taxes	<b>1,099</b>	82
Dividend payable	<b>375</b>	375
Other	<b>297</b>	172
	<b>\$9,415</b>	\$6,176

Other liabilities consist of the following (in thousands):

	<b>June</b>	March
	<b>26,</b>	27,
	<b>2016</b>	2016
Deferred development fees	<b>\$60</b>	\$129
Reserve for uncertain tax positions	<b>423</b>	427
Deferred rental liability	<b>870</b>	893
Dividend payable	<b>125</b>	250
Other	<b>8</b>	7
	<b>\$1,486</b>	\$1,706

## NOTE I – SALES

The Company's sales for the thirteen weeks ended June 26, 2016 and June 28, 2015 are as follows (in thousands):

Thirteen weeks  
ended  
**June**      June 28,  
**26,**                      2015  
**2016**

Branded Products	<b>\$16,254</b>	\$17,415
Company-operated restaurants	<b>4,843</b>	5,299
Other	<b>165</b>	177
Total sales	<b>\$21,262</b>	\$22,891

#### NOTE J – INCOME TAXES

The income tax provisions for the thirteen-week periods ended June 26, 2016 and June 28, 2015 reflect effective tax rates of 31.3% and 41.3%, respectively. Nathan's effective tax rate was reduced by 12.0% during the fiscal 2017 period as a result of the tax benefit associated with stock compensation guidance from the FASB that was recently adopted by the Company. During the fiscal 2016 period, the Company's tax rate was negatively affected by 2.0% due to lost interest deductions arising from its investments in municipal securities. The Company's tax rate was favorably affected by 0.5% and 0.1% during the fiscal 2016 period, due to the settlement of an uncertain tax position and effects of tax-exempt interest income, respectively. For the thirteen week period ended June 26, 2016, excess tax benefits of \$621,000 were reflected in the Consolidated Statements of Earnings as a component of the provision for income taxes as a result of the early adoption of guidance addressing how companies account for certain aspects of its share-based payments to employees. Please refer to Note B for more details regarding the adoption.

The amount of unrecognized tax benefits at June 26, 2016 was \$201,000, all of which would impact Nathan's effective tax rate, if recognized. As of June 26, 2016, Nathan's had \$209,000 of accrued interest and penalties in connection with unrecognized tax benefits.

During the fiscal year ending March 26, 2017, Nathan's will seek to settle additional uncertain tax positions with the tax authorities. As a result, it is reasonably possible the amount of unrecognized tax benefits, excluding the related accrued interest and penalties, could be reduced by up to \$31,000, which would favorably impact Nathan's effective tax rate, although no assurances can be given in this regard.

Nathan's estimates that its annual tax rate for the fiscal year ending March 26, 2017 will be in the range of approximately 42.0% to 44.0%, excluding the impact of the excess tax benefit associated with stock compensation and the potential impact of any reduction to the Company's unrecognized tax benefits. The final annual tax rate is subject to many variables, including the ultimate determination of revenue and income tax by state, among other factors, and therefore cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from our current estimates.

In June 2016 Nathan's received notification from the Internal Revenue Service that it is seeking to review Nathan's federal tax return for the period April 1, 2014 through March 31, 2015.

#### NOTE K – SHARE-BASED COMPENSATION

Total share-based compensation during the thirteen-week periods ended June 26, 2016 and June 28, 2015 was \$173,000 and \$203,000, respectively. Total share-based compensation is included in general and administrative expense in our accompanying Consolidated Statements of Earnings. As of June 26, 2016, there was \$908,000 of unamortized compensation expense related to share-based incentive awards. We expect to recognize this expense over approximately one year and ten months, which represents the weighted average remaining requisite service periods for such awards.

There were no new share-based awards granted during the thirteen-week period ended June 26, 2016.

The Company recognizes compensation cost for unvested stock-based incentive awards on a straight-line basis over the requisite service period. Compensation cost charged to expense under all stock-based incentive awards is as follows (in thousands):

Thirteen  
weeks  
ended



	<b>June</b>	June
	<b>26,</b>	28,
	<b>2016</b>	2015
Stock options	<b>\$38</b>	\$68
Restricted stock	<b>135</b>	135
Total compensation cost	<b>\$173</b>	\$203

*Stock options outstanding:*

During the fiscal year ended March 29, 2015, the Company granted options to purchase 50,000 shares at an exercise price of \$53.89 per share, all of which expire five years from the date of grant.

In connection with the Company's special cash dividend, which was paid on March 27, 2015, to stockholders of record as of March 20, 2015, the Company performed an analysis, pursuant to the anti-dilution provisions of the Company's 2010 Stock Incentive Plan, and issued 75,745 replacement options at an exercise price of \$35.576 for the unvested stock options that were outstanding as of March 29, 2015. Nathan's performed its evaluation based on the closing price of its common stock on Friday, March 27, 2015 of \$73.56 per share, or \$48.56 per share excluding the dividend of \$25.00 per share. No other terms or conditions of the outstanding options were modified. The anti-dilution provisions of the original award were structured to equalize the award's fair value before and after the modification.

All such stock options vest ratably over a four-year period commencing August 6, 2015.

Transactions with respect to stock options for the thirteen weeks ended June 26, 2016 are as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at the beginning of the fiscal year (A)	124,030	\$ 26.29	2.13	\$ 1,952
Granted	-	-	-	-
Expired	-	-	-	-
Exercised	(48,285 )	\$ 11.72	-	1,555
Options outstanding at June 26, 2016	<b>75,745</b>	<b>\$ 35.58</b>	<b>3.11</b>	<b>\$ 516</b>
Options exercisable at June 26, 2016	<b>18,936</b>	<b>\$ 35.58</b>	<b>3.11</b>	<b>\$ 129</b>

A- Represents outstanding options after giving effect to the replacement options issued in connection with the Company's special dividend.

*Restricted stock:*

Transactions with respect to restricted stock for the thirteen weeks ended June 26, 2016 are as follows:

	Shares	Weighted-Average Grant-date Fair value Per share
Unvested restricted stock at March 27, 2016	<b>25,000</b>	<b>\$ 41.59</b>
Granted	-	-
Vested	<b>(5,000 )</b>	<b>\$ 49.80</b>
Unvested restricted stock at June 26, 2016	<b>20,000</b>	<b>\$ 39.54</b>

NOTE L – STOCKHOLDERS' EQUITY

*1. Dividend*

On March 10, 2015, the Company's Board of Directors declared a special cash dividend of \$25.00 per share payable to stockholders of record as of March 20, 2015 of which approximately \$115,100,000 was paid on March 27, 2015 to the stockholders. The Company also accrued \$1,000,000 for the expected dividends payable on unvested shares pursuant to the terms of the restricted stock agreements. As unvested restricted stock vests, the declared dividend will be paid. Since the beginning of Fiscal 2016, we have paid \$500,000 of the accrued dividend and estimate that an additional \$250,000 will also be paid during the remainder of the current fiscal year.

*2. Common Stock Purchase Rights*

On June 5, 2013, Nathan's adopted a new stockholder rights plan (the "2013 Rights Plan") under which all stockholders of record as of June 17, 2013 received rights to purchase shares of common stock (the "2013 Rights") and the previously existing "New Rights Plan" was terminated.

The 2013 Rights were distributed as a dividend. Initially, the 2013 Rights will attach to, and trade with, the Company's common stock. Subject to the terms, conditions and limitations of the 2013 Rights Plan, the 2013 Rights will become exercisable if (among other things) a person or group acquires 15% or more of the Company's common stock. Upon such an event and payment of the purchase price of \$100.00 (the "2013 Right Purchase Price"), each 2013 Right (except those held by the acquiring person or group) will entitle the holder to acquire one share of the Company's common stock (or the economic equivalent thereof) or, if the then-current market price is less than the then current 2013 Right Purchase Price, a number of shares of the Company's common stock which at the time of the transaction has a market value equal to the then current 2013 Right Purchase Price at a purchase price per share equal to the then current market price of the Company's Common Stock.

The Company's Board of Directors may redeem the 2013 Rights prior to the time they are triggered. Upon adoption of the 2013 Rights Plan, the Company initially reserved 10,188,600 shares of common stock for issuance upon exercise of the 2013 Rights. The 2013 Rights will expire on June 17, 2018 unless earlier redeemed or exchanged by the Company.

At June 26, 2016, the Company has reserved 10,595,655 shares of common stock for issuance upon exercise of the Common Stock Purchase Rights approved by the Board of Directors on June 5, 2013.

### *3. Stock Repurchase Programs*

During the period from October 2001 through June 26, 2016, Nathan's purchased a total of 5,127,373 shares of its common stock at a cost of approximately \$77,303,000 pursuant to various stock repurchase plans previously authorized by the Board of Directors. During the thirteen-week period ended June 26, 2016, we repurchased 30,616 shares of common stock at a cost of \$1,272,000.

On March 11, 2016, the Company and Mutual Securities, Inc. ("MSI") entered into an agreement (the "Agreement") pursuant to which MSI has been authorized on the Company's behalf to purchase up to 175,000 shares of the Company's common stock, \$.01 par value, commencing on March 21, 2016. The Agreement was adopted under the safe harbor provided by Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, as amended, in order to assist the Company in implementing its stock purchase plans.

As of June 26, 2016, an aggregate of 260,258 shares can still be purchased under Nathan's existing stock buy-back program.

Purchases may be made from time to time, depending on market conditions, in open market or privately-negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases to be made under these stock-repurchase plans.

### NOTE M – LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	<b>June 26,</b>	March
	<b>2016</b>	27,
		2016
10.000% Senior secured notes due 2020	<b>\$135,000</b>	\$135,000
Less: unamortized debt discounts and issuance costs	<b>(4,423 )</b>	(4,734 )
	<b>\$130,577</b>	\$130,266

On March 10, 2015, the Company completed the issuance of \$135,000,000 of 10.000% Senior Secured Notes due 2020 (“the Notes”) in a Rule 144A transaction. The Notes were issued pursuant to an indenture, dated March 10, 2015 (the “Indenture”), by and among the Company, certain of its wholly-owned subsidiaries, as guarantors, and U.S. Bank National Association, a national banking association, as trustee and collateral trustee. The Company used the proceeds to pay a special cash dividend of approximately \$116,100,000 (see Note L) with the remaining net proceeds for general corporate purposes, including working capital. Debt discounts and issuance costs of approximately \$5,985,000 were incurred, which will be amortized into interest expense over the remaining 5-year term of the Notes.

The Notes bear interest at 10.000% per annum, payable semi-annually on March 15<sup>th</sup> and September 15<sup>th</sup>. The Notes have no scheduled principal amortization payments prior to its final maturity on March 10, 2020.

There are no financial maintenance covenants associated with the Notes. As of June 26, 2016, Nathan’s was in compliance with all covenants associated with the Notes.

The Indenture contains certain covenants limiting the Company’s ability and the ability of its restricted subsidiaries (as defined in the Indenture) to, subject to certain exceptions and qualifications: (i) incur additional indebtedness; (ii) pay dividends or make other distributions on, redeem or repurchase, capital stock; (iii) make investments or other restricted payments; (iv) create or incur certain liens; (v) incur restrictions on the payment of dividends or other distributions from its restricted subsidiaries; (vi) enter into certain transactions with affiliates; (vii) sell assets; or (viii) effect a consolidation or merger. Certain Restricted Payments which may be made or indebtedness incurred by Nathan’s or its Restricted Subsidiaries may require compliance with the following financial ratios:

*Fixed Charge Coverage Ratio:* the ratio of the Consolidated Cash Flow to the Fixed Charges for the relevant period, currently set at 2.0 to 1.0 in the Indenture. The Fixed Charge Coverage Ratio applies to determining whether additional Restricted Payments may be made, certain additional debt may be incurred and acquisitions may be made.

*Priority Secured Leverage Ratio:* the ratio of (a) Consolidated Net Debt outstanding as of such date that is secured by a Priority Lien to (b) Consolidated Cash Flow of Nathan's for the Test Period then most recently ended, in each case with such pro forma adjustments as are appropriate; currently set at 0.40 to 1.00 in the Indenture.

*Secured Leverage Ratio:* the ratio of (a) Consolidated Net Debt outstanding as of such date that is secured by a Lien on any property of Nathan's or any Guarantor to (b) Consolidated Cash Flow of Nathan's for the Test Period then most recently ended, in each case with such pro forma adjustments as are appropriate. The Secured Leverage Ratio under the Indenture is 3.75 to 1.00 and applies if Nathan's wants to incur additional debt on the same terms as the Notes.

The Indenture also contains customary events of default, including, among other things, failure to pay interest, failure to comply with agreements related to the indenture, failure to pay at maturity or acceleration of other indebtedness, failure to pay certain judgments, and certain events of insolvency or bankruptcy. Generally, if any event of default occurs, the Trustee or the holders of at least 25% in principal amount of the Notes may declare the Notes due and payable by providing notice to the Company. In case of default arising from certain events of bankruptcy or insolvency, the Notes will become immediately due and payable.

The Notes are general senior secured obligations, are fully and unconditionally guaranteed by substantially all of the Company's wholly-owned subsidiaries and rank *pari passu* in right of payment with all of the Company's existing and future indebtedness that is not subordinated, are senior in right of payment to any of the Company's existing and future subordinated indebtedness, are structurally subordinated to any existing and future indebtedness and other liabilities of the Company's subsidiaries that do not guarantee the Notes, and are effectively junior to all existing and future indebtedness that is secured by assets other than the collateral securing the Notes.

Pursuant to the terms of a collateral trust agreement, the liens securing the Notes and the guarantees will be contractually subordinated to the liens securing any future credit facility.

The Notes and the guarantees are the Company and the guarantors' senior secured obligations and will rank:

senior in right of payment to all of the Company and the guarantors' future subordinated indebtedness;

effectively senior to all unsecured senior indebtedness to the extent of the value of the collateral securing the Notes and the guarantees;

*pari passu* with all of the Company and the guarantors' other senior indebtedness;

effectively junior to any future credit facility to the extent of the value of the collateral securing any future credit facility and the Notes and the guarantees and certain other assets;

effectively junior to any of the Company and the guarantors' existing and future indebtedness that is secured by assets other than the collateral securing the Notes and the guarantees to the extent of the value of any such assets; and

structurally subordinated to the indebtedness of any of the Company's current and future subsidiaries that do not guarantee the Notes.

Prior to September 15, 2017, the Company has the option to redeem up to 35% of the aggregate principal amount of the Notes at a redemption price equal to 110% of the principal amount of the Notes redeemed, plus accrued and unpaid interest and any additional interest, with the net cash proceeds of certain equity offerings.

The Company may redeem the Notes in whole or in part prior to September 15, 2017, at a redemption price of 100% of the principal amount of the Notes plus the Applicable Premium, plus accrued and unpaid interest. An Applicable Premium is the greater of 1% of the principal amount of the Notes; or the excess of the present value at such redemption date of (i) the redemption price of the Notes at September 15, 2017 plus (ii) all required interest payments due on the Notes through September 15, 2017 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over the then outstanding principal amount of the Notes.

On or after September 15, 2017, the Company may redeem some or all of the Notes at a decreasing premium over time, plus accrued and unpaid interest as follows:

<b><u>YEAR</u></b>	<b>PERCENTAGE</b>	
On or after September 15, 2017 and prior to March 15, 2018	105.000	%
On or after March 15, 2018 and prior to March 15, 2019	102.500	%
On or after March 15, 2019	100.000	%

In certain circumstances involving a change of control, the Company will be required to make an offer to repurchase all or, at the holder’s option, any part, of each holder’s Notes pursuant to the offer described below (the “Change of Control Offer”). In the Change of Control Offer, the Company will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, to the date of purchase.

If the Company sells certain assets and does not use the net proceeds as required, the Company will be required to use such net proceeds to repurchase the Notes at 100% of the principal amount thereof, plus accrued and unpaid interest and additional interest penalty, if any, to the date of repurchase.

The Notes may be traded between qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933. We have recorded the Notes at cost.

#### NOTE N – COMMITMENTS AND CONTINGENCIES

##### 1. Contingencies

The Company and its subsidiaries are from time to time involved in ordinary and routine litigation. Management presently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the Company’s financial position, cash flows or results of operations. Nevertheless, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages and, in such event, could result in a material adverse impact on the Company’s results of operations for the period in which the ruling occurs.





## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Forward-Looking Statements**

Statements in this Form 10-Q quarterly report may be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These risks and uncertainties, many of which are not within our control, include but are not limited to: economic, weather (including the affects on the supply of cattle), and change in the price of beef trimmings; our ability to pass on the cost of any price increases in beef and beef trimmings, or labor costs; legislative and business conditions; the collectibility of receivables; changes in consumer tastes; the status of our licensing and supply agreements, including the impact of our supply agreement for hot dogs with John Morrell & Co., the impact of our debt service and repayment obligations under the Notes; the continued viability of Coney Island as a destination location for visitors; the ability to continue to attract franchisees; the impact of the new minimum wage legislation in New York State or other changes in labor laws, including regulations which could render a franchisor as a “joint employee” or the impact of our new union contract; our ability to attract competent restaurant and managerial personnel; the enforceability of international franchising agreements and the future effects of any food borne illness; such as bovine spongiform encephalopathy, BSE or e-coli; as well as those risks discussed from time to time in this Form 10-Q and our Form 10-K annual report for the year ended March 27, 2016, and in other documents we file with the Securities and Exchange Commission. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. We generally identify forward-looking statements with the words “believe,” “intend,” “plan,” “expect,” “anticipate,” “estimate,” “will,” “should” and similar expressions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q.

### **Introduction**

As used in this Report, the terms “we”, “us”, “our”, “Nathan’s” or the “Company” mean Nathan’s Famous, Inc. and its subsidiaries (unless the context indicates a different meaning).

We are engaged primarily in the marketing of the “Nathan’s Famous” brand and the sale of products bearing the “Nathan’s Famous” trademarks through several different channels of distribution. Historically, our business has been the operation and franchising of quick-service restaurants featuring Nathan’s World Famous Beef Hot Dogs, crinkle-cut French-fried potatoes, and a variety of other menu offerings. Our Company-owned and franchised units operate under the name “Nathan’s Famous,” the name first used at our original Coney Island restaurant opened in 1916. Nathan’s

product licensing program sells packaged hot dogs and other meat products to retail customers through supermarkets or grocery-type retailers for off-site consumption. Our Branded Product Program enables foodservice retailers and others to sell some of Nathan's proprietary products outside of the realm of a traditional franchise relationship. In conjunction with this program, purchasers of Nathan's products are granted a limited use of the Nathan's Famous trademark with respect to the sale of the purchased products, including Nathan's World Famous Beef Hot Dogs, certain other proprietary food items and paper goods. Our Branded Menu Program is a limited franchise program, under which foodservice operators may sell a greater variety of Nathan's Famous menu items than under the Branded Product Program.

Our revenues are generated primarily from selling products under Nathan's Branded Product Program, operating Company-owned restaurants, licensing agreements for the sale of Nathan's products within supermarkets and club stores, the sale of Nathan's products directly to other foodservice operators and the manufacture of certain proprietary spices by third parties and franchising the Nathan's restaurant concept (including the Branded Menu Program).

At June 26, 2016, our restaurant system consisted of 261 Nathan's franchised units, including 103 Branded Menu units, and five Company-owned units (including one seasonal unit), located in 20 states, and 11 foreign countries. At June 28, 2015, our restaurant system consisted of 291 Nathan's franchised units, including 118 Branded Menu units, and five Company-owned units (including one seasonal unit), located in 27 states, and ten foreign countries.

In addition to plans for expansion through our Branded Product Program, licensing and franchising, Nathan's continues to seek to co-brand within its restaurant system. Nathan's is also the owner of the Arthur Treacher's brand. Currently there are also seven locations operating under our Arthur Treacher's Branded Menu Program agreement.

As described in our Annual Report on Form 10-K for the year ended March 27, 2016, our future results could be materially impacted by many developments including our dependence on John Morrell & Co. as our principal supplier. In addition, our future operating results could be impacted by supply constraints on beef, as a result of the lingering effect of the drought in the Midwest on beef prices. Our future results could also be impacted by increased costs of beef compared to earlier periods.

On March 10, 2015, we consummated a \$135,000,000 offering of 10.000% Senior Secured Notes due 2020 (“the Notes”) and paid a dividend of \$25.00 per share (or approximately \$116,100,000 million in the aggregate). Our future results could also be impacted by our obligations under the Notes. As a result of the issuance of the Notes, Nathan’s expects to incur interest expense of \$13,500,000 per annum and annual amortization of debt discounts and issuance costs of approximately \$1,200,000. The Indenture governing the Notes will impose operating and other restrictions on us. The impact of interest expense on net income has been reflected in our results for the thirteen week periods ended June 26, 2016 and June 28, 2015. Accordingly, as described below we are also including information relating to EBITDA and Adjusted EBITDA in this Form 10-Q quarterly report.

### **Critical Accounting Policies and Estimates**

As discussed in our Form 10-K for the fiscal year ended March 27, 2016, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; impairment of goodwill and other intangible assets; impairment of long-lived assets; share-based compensation and income taxes (including uncertain tax positions). Since March 27, 2016, there have been no changes in our critical accounting policies or significant changes to the assumptions and estimates related to them.

### **Adoption of New Accounting Pronouncements**

Please refer to Note B of the preceding consolidated financial statements for our discussion of the Adoption of New Accounting Pronouncement.

### **New Accounting Pronouncements Not Yet Adopted**

Please refer to Note C of the preceding consolidated financial statements for our discussion of New Accounting Pronouncements Not Yet Adopted.

### **EBITDA and Adjusted EBITDA**

The Company believes that EBITDA and Adjusted EBITDA are useful to investors to assist in assessing and understanding the Company's operating performance and underlying trends in the Company's business because EBITDA and Adjusted EBITDA are (i) among the measures used by management in evaluating performance and (ii) are frequently used by securities analysts, investors and other interested parties as a common performance measure.

### **Reconciliation of GAAP and Non-GAAP Measures**

The following is provided to supplement certain Non-GAAP financial measures.

In addition to disclosing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"), the Company has provided EBITDA excluding (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA excluding (i) stock-based compensation and (ii) amortization of bond premium on the Company's available-for sale investments that the Company believes will impact the comparability of its results of operations.

EBITDA and Adjusted EBITDA are not recognized terms under US GAAP and should not be viewed as alternatives to net income (loss) or other measures of financial performance or liquidity in conformity with US GAAP. Additionally, our definitions of EBITDA and Adjusted EBITDA may differ from other companies. Analysis of results and outlook on a non-US GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with US GAAP.

The following is a reconciliation of Net income to Adjusted EBITDA (in thousands):

	Thirteen weeks ended	
	June 26, 2016	June 28, 2015
Net income	\$3,550	\$2,310
Interest expense	3,676	3,709
Income taxes	1,620	1,628
Depreciation and amortization	347	339
EBITDA	9,193	7,986
Stock-based compensation	173	203
Amortization of bond premium	-	68
Adjusted EBITDA	\$9,366	\$8,257

## Results of Operations

### Thirteen weeks ended June 26, 2016 compared to thirteen weeks ended June 28, 2015

#### Revenues

Total sales decreased by 7.1% to \$21,262,000 for the thirteen weeks ended June 26, 2016 (“fiscal 2017 period”) as compared to \$22,891,000 for the thirteen weeks ended June 28, 2015 (“fiscal 2016 period”). Foodservice sales from the Branded Product Program decreased by 6.7% to \$16,254,000 for the fiscal 2017 period as compared to sales of \$17,415,000 in the fiscal 2016 period. This decrease was primarily attributable to a reduction in our average selling prices of approximately 9.6% as a direct result of our cost basis pricing strategy resulting from a 20.4% decline in our beef costs partly offset by a 2.7% increase in the volume of products sold. Total Company-owned restaurant sales were \$4,843,000 during the fiscal 2017 period compared to \$5,299,000 during the fiscal 2016 period. Sales at our Company-owned restaurants were unfavorably affected during the quarter due primarily to the amount of rain and unseasonably cool weather during April and May 2016 that hurt our Coney Island locations. Direct retail sales also decreased by \$12,000 during the fiscal 2017 period as compared to the fiscal 2016 period.

License royalties were \$6,824,000 in the fiscal 2017 period as compared to \$6,536,000 in the fiscal 2016 period. Total royalties earned on sales of hot dogs from our license agreement with John Morrell & Co. at retail and foodservice, substantially from sales of hot dogs to Sam’s Club, increased 4.4% to \$6,362,000 for the 2017 fiscal period as

compared to \$6,095,000 in the fiscal 2016 period. The increase is substantially attributable to significant volume growth in our consumer packaged hot dog business as a result of the ongoing sales, marketing and promotional strategies tied to lower beef costs. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$21,000 during the fiscal 2017 period as compared to the fiscal 2016 period.

Franchise fees and royalties were \$1,330,000 in the fiscal 2017 period as compared to \$1,227,000 in the fiscal 2016 period. Total royalties were \$1,152,000 in the fiscal 2017 period as compared to \$1,186,000 in the fiscal 2016 period. Royalties earned under the Branded Menu program were \$262,000 in the fiscal 2017 period as compared to \$308,000 in the fiscal 2016 period due principally to the closure of low volume locations by the franchisee, including 26 units within K-Mart. Royalties earned under the Branded Menu Program are not based upon a percentage of restaurant sales but are based upon product purchases. Traditional franchise royalties were \$890,000 in the fiscal 2017 period as compared to \$878,000 in the fiscal 2016 period. Franchise restaurant sales increased to \$19,830,000 in the fiscal 2017 period as compared to \$19,413,000 in the fiscal 2016 period primarily due to the impact of the new units opened in the previous fiscal year. Comparable domestic franchise sales (consisting of 100 Nathan's outlets, excluding sales under the Branded Menu Program) were \$15,284,000 in the fiscal 2017 period as compared to \$15,630,000 in the fiscal 2016 period, a decrease of 2.2%.

At June 26, 2016, 261 domestic and international franchised or Branded Menu Program franchise outlets were operating as compared to 291 domestic and international franchised or Branded Menu Program franchise outlets at June 28, 2015. Total franchise fee income was \$178,000 in the fiscal 2017 period compared to \$41,000 in the fiscal 2016 period. Domestic franchise fee income was \$54,000 in the fiscal 2017 period compared to \$40,000 in the fiscal 2016 period. International franchise fee income was \$99,000 in the fiscal 2017 period compared to \$1,000 during the fiscal 2016 period primarily due to international fees. We also recognized \$25,000 in forfeited fees in the fiscal 2017 period. During the fiscal 2017 period, four new franchised outlets opened and four new Branded Menu Program outlets opened. During the fiscal 2016 period, five new franchised outlets opened and ten new Branded Menu Program outlets opened.

**Costs and Expenses**

Overall, our cost of sales decreased by 14.6% to \$15,458,000 in the fiscal 2017 period as compared to \$18,106,000 in the fiscal 2016 period. Our gross profit (representing the difference between sales and cost of sales) was \$5,804,000 or 27.3% of sales during the fiscal 2017 period as compared to \$4,785,000 or 20.9% of sales during the fiscal 2015 period. The margin improvement was primarily due to the lower cost of beef in the Branded Product Program and in the Company-operated restaurants.

Cost of sales in the Branded Product Program decreased by approximately \$2,470,000 during the fiscal 2017 period as compared to the fiscal 2016 period, primarily due to the 20.4% decrease in the average cost per pound of our hot dogs partly offset by higher volume of product sold. During the fiscal 2017 period, we completed our purchase of approximately 662,000 lbs. of hot dogs pursuant to the open purchase commitment, representing approximately 11.3% of volume, which reduced our overall cost of hot dogs by approximately 110 BPS. We did not make any purchases during the fiscal 2016 period pursuant to any purchase commitments. If the cost of beef and beef trimmings increases and we are unable to pass on these higher costs through price increases or otherwise reduce any increase in our costs through the use of purchase commitments, our margins will be adversely impacted.

With respect to Company-owned restaurants, our cost of sales during the fiscal 2017 period was \$2,648,000 or 54.7% of restaurant sales, as compared to \$2,827,000 or 53.3% of restaurant sales in the fiscal 2016 period due primarily to higher labor costs principally associated with the effects of the New York State minimum wage increase, partly offset by lower food costs at our Company-owned restaurants. Our costs going forward could also be impacted by the multi-year new minimum wage requirements in New York State and any increase in food costs.

Restaurant operating expenses were \$938,000 in the fiscal 2017 period as compared to \$969,000 in the fiscal 2016 period. The decrease in restaurant operating costs results primarily from the reduction in maintenance and related costs at our restaurants and utilities. Operating costs of the four comparable restaurants decreased by approximately \$25,000 from the fiscal 2016 period to the fiscal 2017 period. Despite the recent reduction in our utility costs, we continue to be concerned about the volatile market conditions for oil and natural gas.

Depreciation and amortization was \$347,000 in the fiscal 2017 period as compared to \$339,000 in the fiscal 2016 period.

General and administrative expenses increased by \$225,000 or 6.2% to \$3,849,000 in the fiscal 2017 period as compared to \$3,624,000 in the fiscal 2016 period. The increase in general and administrative expenses was primarily attributable to our marketing and promotional activities in commemoration of our 100<sup>th</sup> anniversary.



**Other Items**

Interest income was \$5,000 in the fiscal 2016 period, primarily due to interest income earned on marketable securities.

Other income of \$22,000 in the fiscal 2017 period as compared to \$26,000 in the fiscal 2016 period relates primarily to a sublease of a franchised restaurant.

Interest expense of \$3,676,000 in the fiscal 2017 period represents accrued interest of \$3,364,000 on the Notes and amortization of debt discounts and issuance costs of \$312,000 during the same period. Interest expense was \$3,709,000 in the fiscal 2016 period representing accrued interest of \$3,413,000 on the Notes and amortization of debt discounts and issuance costs of \$296,000 during the same period. As a result of the issuance of the Notes, Nathan's expects to incur interest expense of \$13,500,000 per annum and annual amortization of debt discounts and issuance costs of approximately \$1,200,000.

**Provision for Income Taxes**

In the fiscal 2017 period, the income tax provision was \$1,620,000 or 31.3% of earnings before income taxes as compared to \$1,628,000 or 41.3% of income before income taxes in the fiscal 2016 period. Nathan's effective tax rate was reduced by 12.0% during the fiscal 2017 period as a result of the tax benefit associated with stock compensation in connection with the accounting guidance that was recently adopted by the Company. During the fiscal 2016 period, the Company's tax rate was negatively affected by 2.0% due to lost interest deductions arising from its investments in municipal securities. The Company's tax rate was favorably affected by 0.5% and 0.1% during the fiscal 2016 period, due to the settlement of an uncertain tax position and effects of tax-exempt interest income, respectively. Nathan's effective tax rates without these adjustments would have been 43.1% for the fiscal 2017 period and 39.9% for the fiscal 2016 period. Nathan's estimates that its unrecognized tax benefits including the related accrued interest and penalties could be further reduced by up to \$60,000 during the remainder of fiscal 2017. As described under Note J to the Consolidated Financial Statements, Nathan's estimates that its annual tax rate for the fiscal year ending March 26, 2017 will be in the range of approximately 42.0% to 44.0% excluding the impact of the excess tax benefits associated with stock compensation and the potential impact of any reduction to the Company's unrecognized tax benefits.

### **Off-Balance Sheet Arrangements**

Nathan's did not have any open purchase commitments for hot dogs outstanding as of June 26, 2016. Nathan's may enter into purchase commitments in the future as favorable market conditions become available.

### **Liquidity and Capital Resources**

Cash and cash equivalents at June 26, 2016 aggregated \$52,838,000, a \$2,610,000 increase during the fiscal 2017 period as compared to cash and cash equivalents of \$50,228,000 at March 27, 2016. Net working capital increased to \$51,916,000 from \$49,779,000 at March 27, 2016.

On March 10, 2015, the Company completed an offering of \$135,000,000 aggregate principal amount of the Notes. The Company used the net proceeds of the Notes offering to pay a special dividend of \$25.00 per share (approximately \$116,100,000 in the aggregate) to Company stockholders of record and will use the remaining net proceeds for general corporate purposes, including working capital.

The Notes were issued pursuant to an indenture, dated as of March 10, 2015 (the "Indenture"), by and among the Company, certain of its wholly-owned subsidiaries, as guarantors, and U.S. Bank National Association, a national banking association, as trustee and collateral trustee.

The Notes mature on March 15, 2020 and bear interest at a rate of 10.000% per annum, payable semi-annually in cash in arrears on March 15 and September 15 of each year, beginning September 15, 2015. The Notes are redeemable under certain circumstances.

The Indenture contains certain covenants limiting the Company's ability and the ability of its restricted subsidiaries (as defined in the Indenture) to, subject to certain exceptions and qualifications: (i) incur additional indebtedness; (ii) pay dividends or make other distributions on, redeem or repurchase, capital stock; (iii) make investments or other restricted payments; (iv) create or incur certain liens; (v) incur restrictions on the payment of dividends or other distributions from its restricted subsidiaries; (vi) enter into certain transactions with affiliates; (vii) sell assets; or (viii) effect a consolidation or merger.

The Indenture also contains customary events of default, including, among other things, failure to pay interest, failure to comply with agreements related to the Indenture, failure to pay at maturity or acceleration of other indebtedness, failure to pay certain judgments, and certain events of insolvency or bankruptcy. Generally, if any event of default occurs, the Trustee or the holders of at least 25% in principal amount of the Notes may declare the Notes due and payable by providing notice to the Company. In case of default arising from certain events of bankruptcy or insolvency, the Notes will become immediately due and payable.

As of June 26, 2016, Nathan's was in compliance with all covenants associated with the Notes.

The Notes are general senior secured obligations, are fully and unconditionally guaranteed by substantially all of the Company's wholly-owned subsidiaries and rank *pari passu* in right of payment with all of the Company's existing and future indebtedness that is not subordinated, are senior in right of payment to any of the Company's existing and future subordinated indebtedness, are structurally subordinated to any existing and future indebtedness and other liabilities of the Company's subsidiaries that do not guarantee the Notes, and are effectively junior to all existing and future indebtedness that is secured by assets other than the collateral securing the Notes. Pursuant to the terms of a collateral trust agreement, the liens securing the Notes and the guarantees will be contractually subordinated to the liens securing any future credit facility.

The Notes and the guarantees will be the Company and the guarantors' senior secured obligations and will rank:

senior in right of payment to all of the Company and the guarantors' future subordinated indebtedness;

effectively senior to all unsecured senior indebtedness to the extent of the value of the collateral securing the Notes and the guarantees;

*pari passu* with all of the Company and the guarantors' other senior indebtedness;

effectively junior to any future credit facility to the extent of the value of the collateral securing any future credit facility and the Notes and the guarantees and certain other assets;

effectively junior to any of the Company and the guarantors' existing and future indebtedness that is secured by assets other than the collateral securing the Notes and the guarantees to the extent of the value of any such assets; and

structurally subordinated to the indebtedness of any of the Company's current and future subsidiaries that do not guarantee the Notes.

Cash provided by operations of \$4,945,000 in the fiscal 2017 period is primarily attributable to net income of \$3,550,000 in addition to other non-cash operating items of \$1,623,000, and decreased changes in other operating assets and liabilities of \$228,000. Non-cash operating items include \$621,000 of excess income tax benefits from stock-based compensation arrangements as a result of the early adoption of guidance addressing how companies account for certain aspects of its share-based payments to employees. Accounts and other receivables increased by \$4,169,000 due primarily to seasonally higher Branded Product Program sales of \$2,150,000, and seasonally higher royalty receivables of \$1,295,000, and increased seasonal advances to the Advertising Fund of \$822,000. Prepaid expenses and other current assets decreased by \$685,000 due principally to the utilization of prepaid marketing, insurance and other expenses during the fiscal 2017 period and \$211,000 prepaid income taxes that were applied to this years estimated income tax payments. The increase in accounts payable, accrued expenses and other current liabilities of \$3,614,000 is primarily due to increased accrued interest of \$3,364,000, accrued income taxes of \$1,017,000 partially offset by a reduction in accrued payroll and other benefit of \$1,429,000 due primarily to the payment of prior year incentive compensation.

Cash used in investing activities was \$277,000 in the fiscal 2017 period in connection with capital expenditures incurred for our Branded Product Program and select restaurant improvements.

Cash used in financing activities of \$2,058,000 in the fiscal 2017 period relates to the Company's purchase of 30,616 shares of its common stock at a cost of \$1,272,000 during the fiscal 2017 period. The Company paid \$705,000 for the payment of withholding tax on the net share settlement exercise of employee stock options. Additionally, we paid dividends of \$125,000 relating to the previously declared special cash dividend in connection with the vesting of 5,000 shares of the Company's restricted stock. Nathan's also received proceeds from the exercise of employee stock options of \$44,000.

During the period from October 2001 through June 26, 2016, Nathan's purchased a total of 5,127,373 shares of its common stock at a cost of approximately \$77,303,000 pursuant to its stock repurchase plans previously authorized by the Board of Directors. Since March 26, 2007, to date, we have repurchased 3,236,273 shares at a total cost of approximately \$70,145,000, reducing the number of shares then-outstanding by 53.8%.

On February 1, 2016 and March 11, 2016, the Company's Board of Directors authorized increases to the sixth stock repurchase plan for the purchase of up to 1,200,000 shares of its common stock on behalf of the Company. As of June 26, 2016, Nathan's has repurchased 939,742 shares at a cost of \$29,641,000 under the sixth stock repurchase plan. At June 26, 2016, there were 260,258 shares remaining to be repurchased pursuant to the sixth stock repurchase plan. The plan does not have a set expiration date. Purchases under the Company's stock repurchase program may be made from time to time, depending on market conditions, in open market or privately-negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases.

On March 11, 2016, the Company and Mutual Securities, Inc. ("MSI") entered into an agreement (the "Agreement") pursuant to which MSI has been authorized on the Company's behalf to purchase up to 175,000 shares of the Company's common stock, \$.01 par value (the "Common Stock"), commencing on March 21, 2016. The MSI Agreement was adopted under the safe harbor provided by Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, as amended, to assist the Company in implementing its stock purchase plans.

Management believes that available cash, marketable securities and cash generated from operations should provide sufficient capital to finance our operations, satisfy our debt service requirements and stock repurchases for at least the next 12 months.

As discussed above, we had cash and cash equivalents at June 26, 2016 aggregating \$52,838,000. Our Board routinely monitors and assesses its cash position and our current and potential capital requirements. In March 2015, we completed a dividend recapitalization, to return approximately \$116,100,000 to our shareholders and we may continue to return capital to our shareholders through stock repurchases, subject to any restrictions in the Indenture, although there is no assurance that the Company will make any repurchases under its existing stock-repurchase plan.

We expect that in the future we will make investments in certain existing restaurants, support the growth of the Branded Product and Branded Menu Programs, service the outstanding debt and continue our stock repurchase programs, funding those investments from our operating cash flow. We may also incur capital and other expenditures or engage in investing activities in connection with opportunistic situations that may arise on a case-by-case basis. In the fiscal year ending March 26, 2017, we will be required to make interest payments of approximately \$13,500,000.

At June 26, 2016, we sublet one property to a franchisee that we lease from a third party. We remain contingently liable for all costs associated with this property including: rent, property taxes and insurance. We may incur future cash payments with respect to such properties, consisting primarily of future lease payments, including costs and expenses associated with terminating any of such leases.

The following schedule represents Nathan's cash contractual obligations and commitments by maturity as of June 26, 2016 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Cash Contractual Obligations					
Long term debt (a)	\$135,000	\$-	\$-	\$135,000	\$-
Employment Agreements	2,371	1,212	759	400	-
Dividends Payable	500	375	125	-	-
Operating Leases	13,988	1,626	3,304	2,418	6,640
Gross Cash Contractual Obligations	151,859	3,213	4,188	137,818	6,640
Sublease Income	2,651	315	659	627	1,050
Net Cash Contractual Obligations	\$149,208	\$2,898	\$3,529	\$137,191	\$5,590

a) Represents 10.000% Senior Secured Notes due March 2020.

b) At June 26, 2016, the Company had commitments of \$112,000 for capital improvements at various Company-owned restaurants.

At June 26, 2016, the Company had unrecognized tax benefits of \$201,000. The Company believes that it is reasonably possible that the unrecognized tax benefits may decrease by \$31,000 within the next year. A reasonable estimate of the timing of the remaining liabilities is not practicable.

## Inflationary Impact

We do not believe that general inflation has materially impacted earnings since 2006. However, we have experienced significant volatility in our costs for our hot dogs and certain food products, distribution costs and utilities. Our commodity costs for beef have been especially volatile since fiscal 2004. From 2011 through 2014, we experienced unprecedented increases in the cost of beef. Beginning March 2015, the beef markets stabilized through June 2015 before subsequently declining by approximately 30%. As a result of the decline through March 2016, the market price of hot dogs during the fiscal 2016 period was approximately 7.1% lower than the fiscal 2015 period. During the fiscal 2017 period, beef prices have remained favorable, and as such, our market price for hot dogs is 20.4% lower than during the fiscal 2016 period. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2017. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we entered into purchase commitments for a portion of our hot dogs to reduce the impact of increasing market prices. We recently concluded a purchase commitment for approximately 2,600,000 pounds of hot dogs at approximately \$2.01 per pound which we purchased between February and May 2016. We may attempt to enter into similar purchase arrangements for hot dogs and other products in the future. Additionally, we expect to continue experiencing volatility in oil and gas prices on our distribution costs for our food products and utility costs in the Company-owned restaurants and volatile insurance costs resulting from the uncertainty of the insurance markets.

In March 2010, the Federal government passed new legislation to reform the U.S. health care system. As part of the plan, employers will be expected to provide their employees that work more than 30 hours per week with minimum levels of healthcare coverage or incur certain financial penalties. As Nathan's workforce includes numerous part-time workers that typically are not offered healthcare coverage, we may be forced to expand healthcare coverage in 2016 or incur new penalties which may increase our health care costs.

New York State recently passed legislation increasing the minimum hourly wage for fast food workers of restaurant chains with 30 or more locations nationwide. The increase will be phased in differently between New York City and the rest of New York State. Effective December 31, 2015, the minimum wage increased to \$10.50 and \$9.75 in New York City and outside of New York City, respectively.

In New York City, the hourly rate of pay will increase to:

\$12.00 on Dec. 31, 2016; \$13.50 on Dec. 31, 2017; and \$15.00 on Dec. 31, 2018.

The minimum hourly rate of pay for the remainder of New York State will increase to:

\$10.75 on Dec. 31, 2016; \$11.75 on Dec. 31, 2017; \$12.75 on Dec. 31, 2018; \$13.75 on Dec. 31, 2019;

\$14.50 on Dec. 31, 2020; and \$15.00 on July 1, 2021.

All of Nathan's Company-operated restaurants are within New York State, three of which operate within New York City that have been affected by this new legislation.

The Company is further studying the impact on the Company's operations and is developing strategies and tactics, including pricing and potential operating efficiencies, to minimize the effects of these increases and future increases. We have recently increased certain selling prices to pass on recent cost of sales increases. However, if we are unable to fully offset these and future increases through pricing and operating efficiencies, our margins and profits will be negatively affected. We believe that these increases in the minimum wage could have a significant financial impact on our financial results and the results of our franchisees that operate in New York State.

Effective April 1, 2014, the City of New York, passed legislation requiring employers to offer paid sick leave to all employees, including part-time employees, who work more than 80 hours for the employer. Nathan's operates three restaurants that have been affected by this new legislation.

Continued increases in labor, food and other operating expenses, including health care, could adversely affect our operations and those of the restaurant industry and we might have to further reconsider our pricing strategy as a means to offset reduced operating margins.



The Company's business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations," any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, also see the discussions in "Forward-Looking Statements" and "Notes to Consolidated Financial Statements" in this Form 10-Q and "Risk Factors" in this Form 10-Q and our Form 10-K for our fiscal year ended March 27, 2016.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Cash and Cash Equivalents**

We have historically invested our cash and cash equivalents in short term, fixed rate, highly rated and highly liquid instruments which are generally reinvested when they mature throughout the year. Although our existing investments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on short-term investments could be affected at the time of reinvestment as a result of intervening events. As of June 26, 2016, Nathan's cash and cash equivalents aggregated \$52,838,000. Earnings on this amount of cash and cash equivalents would increase or decrease by approximately \$132,000 per annum for each 0.25% change in interest rates.

#### **Marketable Securities**

We have historically, invested our marketable securities in intermediate term, fixed rate, highly rated and highly liquid instruments. These investments are subject to fluctuations in interest rates. As of June 26, 2016, Nathan's did not have any marketable securities on hand. Nathan's anticipates investing in marketable securities in the future. Marketable securities are considered at risk with respect to interest rates to determine their current market value. Our future rate of return could also be affected at the time of reinvestment as a result of intervening events.

#### **Borrowings**

At June 26, 2016, we had \$135,000,000 of Notes outstanding which are due in March 2020. Upon maturity, we anticipate having to refinance a significant portion of the Notes and such refinancing would be based upon the then-prevailing interest rates. Interest expense on these borrowings would increase or decrease by approximately \$338,000 per annum for each 0.25% change in interest rates. We currently do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings.



## **Commodity Costs**

The cost of commodities is subject to market fluctuation. Our commodity costs for beef have been especially volatile since fiscal 2004. From 2011 through 2014, we experienced unprecedented increases in the cost of beef. Beginning March 2015, the beef markets stabilized through June 2015 before subsequently declining by approximately 30%. As a result of the decline through March 2016, the market price of hot dogs during the fiscal 2016 period was approximately 7.1% lower than the fiscal 2015 period. During the fiscal 2017 period, beef prices have remained favorable, and as such, our market price for hot dogs is 20.4% lower than during the fiscal 2016 period. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2017. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we entered into purchase commitments for a portion of our hot dogs in an effort to reduce the impact of increasing market prices. We recently concluded a purchase commitment for approximately 2,600,000 pounds of hot dogs at approximately \$2.01 per pound which we purchased between February and May 2016. We may attempt to enter into similar purchase arrangements for hot dogs and other products in the future. With the exception of those commitments, we have not attempted to hedge against fluctuations in the prices of the commodities we purchase using future, forward, option or other instruments. As a result, we expect that the majority of our future commodity purchases will be subject to market changes in the prices of such commodities. Generally, we have attempted to pass through permanent increases in our commodity prices to our customers, thereby reducing the impact of long-term increases on our financial results. A short-term increase or decrease of 10.0% in the cost of our food and paper products for the thirteen weeks ended June 26, 2016 would have increased or decreased our cost of sales by approximately \$1,350,000.

## **Foreign Currencies**

Foreign franchisees generally conduct business with us and make payments in United States dollars, reducing the risks inherent with changes in the values of foreign currencies. As a result, we have not purchased future contracts, options or other instruments to hedge against changes in values of foreign currencies and we do not believe fluctuations in the value of foreign currencies would have a material impact on our financial results.

## **Item 4. Controls and Procedures.**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have

concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Controls**

There were no changes in our internal controls over financial reporting that occurred during the thirteen weeks ended June 26, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Limitations on the Effectiveness of Controls**

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective at the reasonable assurance level.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

None

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K for the fiscal year ended March 27, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Nathan's. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

## ISSUER PURCHASES OF EQUITY SECURITIES

Period (A)	Total Number of Shares Purchased (B)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (C)
March 28, 2016				
April 24, 2016	19,972	\$41.57	19,972	270,902
April 25, 2016				
May 22, 2016	-	-	-	270,902

May 23,  
2016

June 26, 2016	10,644	\$41.40	10,644	260,258
------------------	--------	---------	--------	---------

Total	30,616	\$41.51	30,616	260,258
-------	--------	---------	--------	---------

A) Represents the Company's fiscal periods during the quarter ended June 26, 2016.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

On August 4, 2016, the Company and Wayne Norbitz, a Director of the Company entered into an amendment to the Consulting Agreement between the Company and Mr. Norbitz. Pursuant the amendment, effective as of August 10, 2016 and through August 10, 2017, Mr. Norbitz will receive a consulting fee of \$8,145.50 per month plus direct expenses.

**Item 6. Exhibits.**

- 3.1 Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 No. 33- 56976.)
- 3.2 Amendment to the Certificate of Incorporation, filed December 15, 1992. (Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 No. 33-56976.)
- 3.3 By-Laws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 8-K dated November 1, 2006.)
- 4.1 Specimen Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-1 No. 33-56976.)
- 4.2 Rights Agreement, dated as of June 5, 2013, between Nathan's Famous, Inc. and American Stock Transfer and Trust Company, LLC, as Rights Agent, which includes form of Rights Certificate as Exhibit A and the Summary of Rights to Purchase as Exhibit B. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report filed on Form 8-K dated June 11, 2013.)
- 4.3 Indenture, dated as of March 10, 2015, by and among Nathan's Famous, Inc., certain of its wholly owned subsidiaries, as guarantors, and U.S. Bank National Association, a National Banking Association, as trustee and collateral trustee (including the form of Note (Incorporated by reference to Exhibit 4.1 to the Company's Current Report filed on Form 8-K dated March 10, 2015.))
- 10.1 \*Amendment, dated August 4, 2016, to the Consulting Agreement dated as of June 10, 2015 by and between Nathan's Famous, Inc. and Wayne Norbitz.
- 10.2 2017 Management Incentive Plan for the fiscal year ending March 26, 2017 (Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on July 28, 2016).
- 31.1 \*Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 \*Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 \*Certification by Eric Gatoff, CEO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 \*Certification by Ronald G. DeVos, CFO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1 \*The following materials from the Nathan's Famous, Inc., Quarterly Report on Form 10-Q for the quarter ended June 26, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) related

notes.

\*Filed herewith.

-28-

---



**SIGNATURES**

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

NATHAN'S FAMOUS, INC.

Date: August 5, 2016

By: /s/ Eric Gatoff  
Eric Gatoff  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 5, 2016

By: /s/ Ronald G. DeVos  
Ronald G. DeVos  
Vice President - Finance and Chief  
Financial Officer  
(Principal Financial and Accounting  
Officer)

**Exhibit Index.**

- 3.1 Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 No. 33- 56976.)
- 3.2 Amendment to the Certificate of Incorporation, filed December 15, 1992. (Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 No. 33-56976.)
- 3.3 By-Laws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 8-K dated November 1, 2006.)
- 4.1 Specimen Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-1 No. 33-56976.)
- 4.2 Rights Agreement, dated as of June 5, 2013, between Nathan's Famous, Inc. and American Stock Transfer and Trust Company, LLC, as Rights Agent, which includes form of Rights Certificate as Exhibit A and the Summary of Rights to Purchase as Exhibit B. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report filed on Form 8-K dated June 11, 2013.)
- 4.3 Indenture, dated as of March 10, 2015, by and among Nathan's Famous, Inc., certain of its wholly owned subsidiaries, as guarantors, and U.S. Bank National Association, a National Banking Association, as trustee and collateral trustee (including the form of Note (Incorporated by reference to Exhibit 4.1 to the Company's Current Report filed on Form 8-K dated March 10, 2015.))
- 10.1 \*Amendment, dated August 4, 2016, to the Consulting Agreement dated as of June 10, 2015, by and between Nathan's Famous, Inc. and Wayne Norbitz.
- 10.2 2017 Management Incentive Plan for the fiscal year ending March 26, 2017 (Incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed on July 28, 2016).
- 31.1 \*Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 \*Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 \*Certification by Eric Gatoff, CEO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 \*Certification by Ronald G. DeVos, CFO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1 \*The following materials from the Nathan's Famous, Inc., Quarterly Report on Form 10-Q for the quarter ended June 26, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) related

notes.

\*Filed herewith.

30