

NATHANS FAMOUS INC  
Form 10-K  
June 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 30, 2014

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 No. 0-3189

NATHAN'S FAMOUS, INC.

(Exact name of registrant as specified in its charter)

Delaware 11-3166443

(State or

other (I.R.S.

jurisdiction of Employer

incorporation Identification

or No.)

organization)

One Jericho Plaza, Jericho, New York 11753

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(Address of principal executive offices) (Zip  
Code)

Registrant's  
telephone  
number, 516-338-8500  
including  
area code:

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

<u>Common Stock – par value \$.01</u>	<u>Nasdaq Global Market</u>
(Title of class)	Name of each exchange on which registered

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

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

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

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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)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter – September 29, 2013 - was approximately \$172,753,000.

As of June 6, 2014, there were outstanding 4,464,321 shares of Common Stock, par value \$.01 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**– The information required by Part III, Items 10, 11, 12 and 13 is incorporated by reference from the registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

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## PART I

### Forward-Looking Statements

Statements in this Form 10-K annual 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 three-year drought in the Midwest, along with freezing temperatures during the winter causing a reduced supply of cattle and any continued impact of Superstorm Sandy), and continued increases in the price of beef trimmings; our ability to pass on the cost of any price increases in beef and beef trimmings; legislative and business conditions; the collectability of receivables; changes in consumer tastes; the status of our licensing and supply agreements, any issues arising from or related to the transition from SMG to John Morrell & Co. as our primary hot dog supplier and the termination in March 2014 of our previous hot dog supply agreement with SMG; the ability to continue to attract franchisees; labor costs including no material increases in the minimum wage or the impact of new union contracts; our ability to attract competent restaurant and managerial personnel; the impact of changes in the economic relationship between the United States and Russia; and the future effects of any food borne illness; such as bovine spongiform encephalopathy, BSE; as well as those risks discussed from time to time in this Form 10-K annual report for the year ended March 30, 2014, and in other documents which 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-K.

### Item 1. Business.

*As used herein, unless we otherwise specify, the terms “we,” “us,” “our,” “Nathan’s,” “Nathan’s Famous” and the “Company” mean Nathan’s Famous, Inc. and its subsidiaries, including NF Treacher’s Corp.*

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. The Company considers itself to be in the foodservice industry, and has pursued co-branding and co-hosting initiatives. Our major channels of distribution are as follows:

Operating quick-service restaurants featuring Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, and a variety of other menu offerings, which operate under the name "Nathan's Famous," the name first used at our original Coney Island restaurant which opened in 1916.

Our Franchise program, including the Branded Menu Program. The Branded Menu Program enables qualified foodservice operators to offer a menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, proprietary toppings and other Nathan's Famous menu offerings.

The Branded Product Program which allows foodservice operators to prepare and sell Nathan's World Famous Beef Hot Dogs and certain other proprietary products outside of the realm of a traditional franchise relationship while making limited use of the Nathan's Famous trademarks.

A licensing program, which authorizes various third parties to manufacture, market and distribute various bulk and packaged products bearing the Nathan's Famous trademarks to food service customers as well as retail customers through supermarkets, club stores and other grocery-type outlets.

We also own, through our subsidiary NF Treacher's Corp., the Arthur Treacher's brand and trademarks. We use the Arthur Treacher's brand, products and trademarks as a branded seafood menu-line extension for inclusion in certain Nathan's Famous restaurants. During fiscal 2014, we entered into our first multi-unit Branded Menu Program agreement with a qualified foodservice operator for inclusion in non-Nathan's facilities and may seek to further market this program in the future.

In recent years, our primary focus has been to expand the market penetration of the Nathan's Famous brand. Specifically, we have sought to increase the number of points of brand representation and product sales throughout our various channels of distribution. In this regard, we have concentrated our efforts on:

expanding the number of foodservice locations participating in the Nathan's Famous Branded Product Program;

expanding the number of domestic franchised Nathan's Famous restaurant units through the opening of new and innovative types of locations, such as through the Branded Menu Program, as well as the development of an international franchising program;

expanding our licensing programs for packaged Nathan's Famous products through new product introductions and geographic expansion; and

operating our existing Company-owned restaurants.

As a result of our efforts to expand the Nathan's Famous brand, as of March 30, 2014:

our Nathan's Famous restaurant system consisted of 324 franchised units and five Company-owned units (including one seasonal unit) located in 28 states, the Cayman Islands, and eight foreign countries;

our Nathan's Famous Branded Product Program distributes our Nathan's World Famous Beef Hot Dogs throughout all 50 states, the District of Columbia, Puerto Rico, Canada, the US Virgin Islands, Guam and Mexico; and

Nathan's Famous packaged hot dogs and other products continued to be offered for sale within approximately 33,000 supermarkets and club stores in 45 states.

Our revenues are generated primarily from sales of products sold through our Branded Product Program and within our Company-owned restaurants, as well as from the royalties, fees and other sums we earn from our franchising and licensing activities.

We plan to expand the scope and market penetration of our Branded Product and Branded Menu Programs, further develop the restaurant operations of existing Nathan's Famous franchised and Company-owned outlets, open new Nathan's Famous franchised outlets in traditional or captive market environments and expand the Nathan's Famous retail licensing programs. We also plan to further expand our international presence through our franchise, Branded Products, Branded Menu and retail licensing programs. We may also selectively consider opening new



Company-owned restaurants.

We were incorporated in Delaware on July 10, 1992 under the name “Nathan’s Famous Holding Corporation” to act as the parent of a Delaware corporation then-known as Nathan’s Famous, Inc. On December 15, 1992, we changed our name to Nathan’s Famous, Inc., and our Delaware subsidiary changed its name to Nathan’s Famous Operating Corporation. The Delaware subsidiary was organized in October 1989 in connection with its re-incorporation in Delaware from that of a New York corporation named “Nathan’s Famous, Inc.” The New York Nathan’s was incorporated on July 10, 1925, as a successor to the sole-proprietorship that opened the first Nathan’s restaurant in Coney Island in 1916. On July 23, 1987, Equicor Group, Ltd. was merged with and into the New York Nathan’s in a “going private” transaction. The New York Nathan’s, the Delaware subsidiary and Equicor may all be deemed to be our predecessors.

## Restaurant Operations

Currently, our restaurant operations are comprised predominantly of Nathan's Famous restaurants, which have been co-branded with Arthur Treacher's and Kenny Rogers Roasters menu items in 51 and 34 units, respectively.

### *Nathan's Famous Concept and Menu*

Our Nathan's Famous concept is scalable, offering a wide range of facility designs and sizes, suitable to a vast variety of locations, featuring a core menu consisting of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages. Nathan's menu is designed to take advantage of site-specific market opportunities by adding complementary food items to the core menu. The Nathan's concept is suitable to stand-alone or can be co-branded with other nationally recognized brands.

Nathan's World Famous Beef Hot Dogs are flavored with its secret blend of spices provided by Ida Handwerker in 1916, which historically have distinguished Nathan's World Famous Beef Hot Dogs. Our hot dogs are prepared and served in accordance with procedures which have not varied significantly in more than 97 years in our Company-owned and franchised restaurants. Our signature crinkle-cut French fries, cooked in 100% trans-fat-free oil, are featured at each Nathan's restaurant. We believe the majority of sales in our Company-owned units consist of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages.

Individual Nathan's restaurants supplement their core menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages with a variety of other quality menu choices including: char-grilled hamburgers, crispy chicken tenders, crispy chicken and char-grilled chicken sandwiches, Philly cheese steaks, selected seafood items, a breakfast menu and assorted desserts and snacks. We use the Arthur Treacher's brand, products and trademarks as a branded seafood menu-line extension for inclusion in certain Nathan's Famous restaurants. While the number of supplemental menu items carried varies with the size of the unit, the specific supplemental menus chosen are tailored to local food preferences and market conditions. Each supplemental menu option consists of a number of individual items; for example, the hamburger menu may include char-grilled bacon cheeseburgers, double-burgers and super cheeseburgers. We seek to maintain the same quality standard with each of Nathan's supplemental menus as we do with Nathans' core hot dog and French fries menu. Thus, for example, hamburgers and sandwiches are prepared to order and not pre-wrapped or kept warm under lights. Nathan's also has a "Kids Meal" program in which various menu alternatives are combined with toys designed to appeal to the children's market. Soft drinks, iced tea, coffee and old fashioned lemonade and orangeade are also offered. The Company continually evaluates new products. In the course of its evaluations, the Company seeks to respond to changing consumer trends, including a trend toward perceived "healthier" products. In addition to its well-established, signature products, the Company offers for sale in many of its restaurants up to seven chicken products, six fish products, and five salad and soup products.

Nathan's restaurant designs are available in a range of sizes from 300 to 4,000 square feet. We have also developed various Nathan's carts, kiosks, mobile food trucks and modular units. Our smaller units may not have customer seating areas, although they may often share seating areas with other fast food outlets in food court settings. Other units generally provide seating for 45 to 125 customers. Carts, kiosks and modular units generally carry only the core menu. This menu is supplemented by a number of other menu selections in our other restaurant types.

We believe that Nathan's carts, kiosks, modular units and food court designs are particularly well-suited for placement in non-traditional sites, such as airports, travel plazas, stadiums, schools, convenience stores, entertainment facilities, military facilities, business and industry foodservice, within larger retail operations and other captive markets. Many of these settings may also be appropriate for our expanding Branded Menu Program or Branded Product Program. All of these units feature the Nathan's logo and utilize a contemporary design.

*Arthur Treacher's Fish-n-Chips Concept and Menu*

Arthur Treacher's Fish-n-Chips, Inc. was originally founded in 1969. Arthur Treacher's main product is its "Original Fish-n-Chips," consisting of fish fillets coated with a special batter prepared under a proprietary formula, deep-fried golden brown, and served with English-style chips and corn meal "hush puppies." We own all trademarks and other intellectual property relating to the Arthur Treacher's and granted a limited license to the seller for the use of the Arthur Treacher's intellectual property. Full menu restaurants emphasize the preparation and sale of batter-dipped fried seafood and chicken dishes served in a quick-service environment.

*Kenny Rogers Roasters*

We have the right to use the Kenny Rogers Roasters trademarks for the continued sale of the Kenny Rogers Roasters products in the Nathan's Famous and Miami Subs restaurants existing at April 23, 2008, where the Kenny Rogers products had already been introduced.

*Franchise Operations*

At March 30, 2014, our Nathan's franchise system, including our Branded Menu Program, consisted of 324 units operating in 28 states, the Cayman Islands, and eight foreign countries.

Our franchise system includes among its 146 franchisees such well-known companies as HMS Host, Compass Group USA, Inc., Gourmet Dining Services, Inc., Delaware North, Areas USA FLTP, LLC, CulinArt, Cinemark Theaters, National Amusements, Hershey Entertainment and Six Flags Theme Parks. We continue to market our franchising programs to larger, experienced and successful operators with the financial and business capability to develop multiple franchise units, as well as to individual owner-operators with evidence of restaurant management experience, net worth and sufficient capital.

During our fiscal year ended March 30, 2014, no single franchisee accounted for over 10% of our consolidated revenue. At March 30, 2014, HMS Host operated 17 franchised outlets, including three units at airports, 13 units within highway travel plazas and one unit within a mall. Additionally, at March 30, 2014, HMS Host operated 40 locations featuring Nathan's products pursuant to our Branded Product Program. At March 30, 2014, there were also 38 Kmart locations and 44 Brusters Real Ice Cream shops selling Nathan's products under our Branded Menu Program.

*Nathan's Standard Franchise Program*

Franchisees are required to execute a standard franchise agreement prior to opening each Nathan's Famous unit. Our current standard Nathan's Famous franchise agreement provides for, among other things, a one-time \$30,000 franchise fee payable upon execution of the agreement, a monthly royalty payment based on 5.5% of restaurant sales and the expenditure of up to 2.0% of restaurant sales on advertising. We may offer alternatives to the standard franchise agreement, having to do with franchise royalties, fees or advertising requirements. The initial term of the typical franchise agreement is 20 years, with a 15-year renewal option by the franchisee, subject to conditions contained in the franchise agreement.

Franchisees are approved on the basis of their business background, evidence of restaurant management experience, net worth and capital available for investment in relation to the proposed scope of the development agreement.

We provide numerous support services to our Nathan's Famous franchisees. We assist in and approve all site selections. Thereafter, we provide architectural plans suitable for restaurants of varying sizes and configurations for use in food court, in-line and free standing locations. We also assist in establishing building design specifications, reviewing construction compliance, equipping the restaurant and providing appropriate menus to coordinate with the restaurant design and location selected by the franchisee. We typically do not sell food, equipment or supplies to our standard franchisees.

We offer various management-training courses for management personnel of Company-owned and franchised Nathan's Famous restaurants. A restaurant manager from each restaurant must successfully complete our mandated management-training program. We also offer additional operations and general management training courses for all restaurant managers and other managers with supervisory responsibilities. We provide standard manuals to each franchisee covering training and operations, products and equipment and local marketing programs. We also provide ongoing advice and assistance to franchisees. We meet with our franchisees to discuss upcoming marketing events, menu development and other topics, each of which is designed to provide system-wide benefits.

Franchised restaurants are required to be operated in accordance with uniform operating standards and specifications relating to the selection, quality and preparation of menu items, signage, decor, equipment, uniforms, suppliers, maintenance and cleanliness of premises and customer service. All standards and specifications are developed by us to be applied on a system-wide basis. We regularly monitor franchisee operations and inspect restaurants. Franchisees are required to furnish us with monthly sales or operating reports which assist us in monitoring the franchisee's compliance with its franchise agreement. We make both announced and unannounced inspections of restaurants to ensure that our practices and procedures are followed. We have the right to terminate a franchise if a franchisee does not operate and maintain a restaurant in accordance with the requirements of its franchise agreement, including for non-payment of royalties, sale of unauthorized products, bankruptcy or conviction of a felony. During fiscal 2014, franchisees opened 21 new Nathan's Famous franchised units in the United States (including seven Branded Menu Program units), and 35 units internationally. In February 2014, we terminated our Development Agreement in Canada and entered into a new agreement consisting of Foodservice Programs and a Retail Participation Program. As a result of the termination, the Master Franchisee, no longer has the exclusive right to develop restaurants, either direct owned or franchised, or to operate a retail program. Instead, the Master Franchisee may act as our sales agent to prospective restaurant operators for Nathan's, in Canada.

A franchisee who desires to open multiple units in a specific territory within the United States may enter into an area development agreement under which we would expect to receive an area development fee based upon the number of proposed units which the franchisee is authorized to open. As units are opened under such agreements, a portion of such area development fee may be credited against the franchise fee payable to us, as provided in the standard franchise agreement. We may also grant exclusive territorial rights in foreign countries for the development of Nathan's units based upon compliance with a predetermined development schedule. Additionally, we may further grant exclusive manufacturing and distribution rights in foreign countries, and we expect to require an exclusivity fee to be conveyed for such exclusive rights.

#### *Nathan's Branded Menu Program*

Our Nathan's Famous Branded Menu Program enables qualified foodservice operators to offer a Nathan's Famous menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, proprietary toppings, and a limited menu of other Nathan's products. Under the Branded Menu Program, the operator may use the Nathan's Famous trademarks on signage and as part of its menu boards. Additionally, the operator may use Nathan's Famous paper goods and point of sale marketing materials. Nathan's also provides architectural and design services, training and operation manuals in conjunction with this program. The operator provides Nathan's with a fee and is required to sign a 10-year agreement. Nathan's does not collect a royalty directly from the operator and the operator is not required to report sales to Nathan's as required by the standard franchise arrangements. The Branded Menu Program operator is required to purchase products from Nathan's approved distributors; we earn our royalties from such purchases.

As of March 30, 2014, the Nathan's Branded Menu Program was comprised of 134 outlets, which included 38 Nathan's Famous Branded Products within K-Marts and 44 Nathan's Famous Branded Products within Brusters Real Ice Cream shops, a premium ice cream franchisor headquartered in Western Pennsylvania with approximately 200

company-owned and franchised ice cream shops located largely in the southeast United States.

*Arthur Treacher's*

We are the sole owner of all rights to the Arthur Treacher's brand and the exclusive franchisor of the Arthur Treacher's restaurant system (subject to a limited license granted to PAT Franchise Systems, Inc. ("PFSI") in Indiana, Michigan, Ohio, and Pennsylvania, ("the PFSI Markets"). Accordingly, we have no obligation to pay fees or royalties to PFSI in connection with our use of the Arthur Treacher's intellectual property. Similarly, PFSI has no obligation to pay fees or royalties to us in connection with its use of the Arthur Treacher's intellectual property within the PFSI Markets. As a result of PFSI's failure to satisfy the Development Schedules for each of the territories, all future development rights have reverted to Nathan's.

As of March 30, 2014, Arthur Treacher's co-branded operations were included within 51 Nathan's Famous restaurants. Historically, our primary intention was to continue including co-branded Arthur Treacher's operations within our Nathan's Famous restaurants and explore alternative distribution channels for Arthur Treacher's products. The Branded Menu Program was extended on an opportunistic basis to include certain Arthur Treacher's products to Nathan's operators. During fiscal 2014, we entered into our first Arthur Treacher's Branded Menu Program agreement allowing a non-Nathan's restaurant to market the Arthur Treacher's products. The development agreement provides for up to 55 locations in the Rochester, New York area. The agreement requires opening fees be conveyed to Nathan's in addition to ongoing royalties based on the proprietary products purchased. The first location opened on March 9, 2014. We may seek to expand the opportunity for an Arthur Treacher's Branded Menu Program and may explore a franchising program focused on the expansion of traditional, full-menu Arthur Treacher's restaurants outside of the PFSI Markets in the future.

### *Company-owned Nathan's Restaurant Operations*

As of March 30, 2014, we operated five Company-owned Nathan's units, including one seasonal location, in New York. Our Coney Island flagship location was rebuilt and re-opened on May 20, 2013 after suffering severe damage as a result of Superstorm Sandy on October 29, 2012. Our Yonkers location, re-opened on November 18, 2013 pursuant to a new lease, after being closed for renovation since November 2012. Our Company-owned restaurants range in size from approximately 3,500 square feet to 10,000 square feet, which are generally free-standing buildings and have seating to accommodate between 60 and 125 customers. These restaurants are open seven days a week on a year-round basis and are designed to appeal to consumers of all ages. In March 2012, we relocated our seasonal restaurant to a more prominent location on the Coney Island Boardwalk. We have entered into agreements to terminate our current lease and relocate to a smaller location within the immediate area in Oceanside, NY. These agreements are contingent upon the landlord obtaining the necessary permit and variances from the building department. We expect to operate at the current location through November 2014, and are seeking to open in the new location in March 2015. We have established high standards for food quality, cleanliness, and service at our restaurants and regularly monitor the operations of our restaurants to ensure adherence to these standards.

Three of our Company-owned restaurants have contemporary service areas, seating, signage, and general decor. Our Coney Island restaurant, which first opened in 1916, remains unique in its presentation and operations.

Our Company-owned restaurants typically carry a broader selection of menu items than our newer franchise restaurants and generally attain sales levels higher than the average of our newer franchise restaurants. The items offered at the Company-owned restaurants, other than the core menu, tend to have lower margins than the core menu. To duplicate these older units would require significantly higher levels of initial investment than current franchise restaurants and may operate at a lower sales/investment ratio. Consequently, we do not intend to replicate these older designs in any future Company-owned restaurants.

### *International Development*

As of March 30, 2014, Nathan's Famous franchisees operated 61 units in eight foreign countries, and the Cayman Islands, having significant operations within Russia and Kuwait. During fiscal 2014 we opened 35 new units internationally, including 34 franchise locations in Russia and our second location in Mexico. Of the locations opened in Russia, 22 units were operated at the Sochi Olympics. Although some of the Sochi locations have closed, we expect that the majority of those temporary units will be relocated to permanent locations.

In February 2014, we terminated our Development Agreement in Canada and entered into a new agreement consisting of Foodservice Programs and a Retail Participation Program. As a result of the termination, the Master Franchisee, no



longer has the exclusive right to develop restaurants, either directly owned or franchised, or to operate a retail program. Instead, the Master Franchisee may act as our sales agent to prospective restaurant operators on behalf of Nathan's, and if successfully opened, would receive a fee equal to 20% of any opening fee and ongoing royalties actually earned and collected during the term. The Master Franchisee also has the exclusive right to license approved foodservice operators to participate in the Nathan's Branded Menu Program. The Master Franchisee is then obligated to pay Nathan's 35% of all initial fees, subject to a minimum, and 35% of all rebates earned. Additionally, Nathan's has licensed to John Morrell & Co. the exclusive right to distribute, market and sell consumer packages of "Nathan's Famous" hot dogs through retail channels throughout Canada. Nathan's has also agreed to pay 20% of its license royalties earned in Canada to the Master Franchisee for 15 years.

As of March 30, 2014, we have executed Master Franchise Agreements and Retail Distribution Agreements throughout Costa Rica and Lisbon, Portugal and have received non-refundable fees of \$125,000 and \$35,000, respectively. The agreement for Lisbon, also provides for the option to further development throughout Portugal. We have executed a Letter of Intent for the development of Nathan's restaurants in Singapore and Malaysia, and a separate Letter of Intent for Nigeria, for which we have received non-refundable deposits of \$45,000 and \$25,000, respectively.

We will seek to continue granting exclusive territorial rights for franchising and for the manufacturing and distribution rights in foreign countries, and we expect to require that an exclusivity fee be conveyed for these rights. We plan to develop the restaurant franchising system internationally through the use of master franchising agreements based upon individual or combined use of our existing restaurant concepts and for the distribution of Nathan’s products.

Following is a summary of our international operations for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012: See Item 1A-“Risk Factors.”

	<b>March 30,</b>	March 31,	March 25,
	<b>2014</b>	2013	2012
Total revenue	<b>\$3,531,000</b>	\$3,044,000	\$1,688,000
Gross profit (a)	<b>\$1,765,000</b>	\$1,193,000	\$726,000

(a) Gross profit represents the difference between revenue and cost of sales.

***Location Summary***

The following table shows the number of our Company-owned and franchised units in operation at March 30, 2014 and their geographical distribution:

<u>Domestic Locations</u>	Company	Franchise (1)	Total (1)
Alabama	-	2	2
Arizona	-	1	1
Arkansas	-	1	1
California	-	3	3
Connecticut	-	7	7
Florida	-	27	27
Georgia	-	22	22
Illinois	-	1	1
Kentucky	-	6	6
Maryland	-	3	3
Massachusetts	-	9	9
Michigan	-	5	5
Missouri	-	1	1
Mississippi	-	1	1
Nevada	-	13	13
New Hampshire	-	1	1
New Jersey	-	38	38
New Mexico	-	2	2
New York	5	71	76
North Carolina	-	2	2
Ohio	-	10	10
Pennsylvania	-	19	19
Rhode Island	-	2	2
South Carolina	-	7	7
Tennessee	-	2	2
Texas	-	3	3
Vermont	-	1	1
Virginia	-	3	3
Domestic Subtotal	5	263	268

<u>International Locations</u>	Company	Franchise (1)	Total (1)
Afghanistan	-	1	1
Canada	-	4	4
Cayman Islands	-	1	1

Dominican Republic	-	6	6
Egypt	-	1	1
Jamaica	-	2	2
Kuwait	-	13	13
Mexico	-	2	2
Russia	-	31	31
International Subtotal	-	61	61
Grand Total	5	324	329

(1) Amounts include 135 units operated pursuant to our Nathan's and Arthur Treacher's Branded Menu Programs. Units operating pursuant to our Branded Product Program are excluded.

### ***Branded Product Program***

Through the Branded Product Program, Nathan's provides qualified foodservice operators in a variety of venues the opportunity to capitalize on Nathan's valued brand by marketing and selling certain Nathan's Famous signature products. We believe that the program is unique in its flexibility and broad appeal. Hot dogs are offered in a variety of sizes and even come packaged with buns for vending machine use. In conjunction with the program, the operators are granted a limited use of the Nathan's Famous trademark, as well as Nathan's point of purchase materials. We earn income by selling our products either directly to the end users or to various foodservice distributors who provide the products to retailers.

As of March 30, 2014, the Branded Product Program distributed product in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, Canada and Kuwait. During fiscal 2014, the number of locations offering Nathan's branded products continued to expand. Today, Nathan's World Famous Beef Hot Dogs are being offered in national restaurant chains such as Auntie Anne's and Cheesecake Factory, national movie theater chains such as Regal Entertainment, National Amusements and Rave Theaters, national retail chains such as Kmart, casino hotels such as Foxwoods Casino in Connecticut and Turning Stone Casino in upstate New York and convenience store chains such as Hess, Sunoco and Race Trac. The Branded Products Program also continued its representation in professional sports arenas with Nathan's World Famous Beef Hot Dogs now being served in stadiums and arenas that host the New York Yankees, New York Mets, New York Islanders, Brooklyn Nets, Boston Celtics, Boston Bruins, Carolina Panthers and Charlotte Bobcats. Additionally, our products are offered in numerous other foodservice operations including cafeterias, snack bars and vending machines located in many different types of outlets and venues, including airports, highway travel plazas, colleges and universities, military installations and Veteran's Administration hospitals throughout the country.

Nathan's expects to continue to seek out and evaluate a variety of alternative means designed to maximize the value of our Branded Product Program.

### ***Expansion Program***

We expect that our retail licensing program will continue to grow centered around our new licensing program with John Morrell & Co. who expects to leverage this new relationship with full-scale marketing efforts, both inside and outside of stores, highlighted by exciting customer events including a three race NASCAR Sprint Cup Series sponsorship with Richard Petty Motorsports and the addition of new settings for the Hot Dog Eating Contest Qualifying Events. Additionally, John Morrell & Co. has initiated a mobile marketing tour whereby merchandising trucks will make over 200 scheduled stops at supermarkets throughout the country and certain Hot Dog Eating Contests to bring the Nathan's / Coney Island experience to new markets.

We expect to continue the growth of our Branded Product Program through the addition of new points of sale. We intend to keep targeting sales to a broad line of food distributors, which we believe compliments our continuing focus on sales to various retail chains. We continue to believe that as consumers look to assure confidence in the quality of the food that they purchase, there is great potential to increase our sales by converting existing sales of non-branded products to Nathan's branded products throughout the foodservice industry.

We also expect to continue opening traditional and Branded Menu Nathan's Famous franchised units individually and on a co-branded basis, expanding product distribution through various means such as branded products and retail licensing arrangements, developing master franchising programs in foreign countries and including our Arthur Treacher's signature products both within our restaurant system and as a separate Branded Menu Program.

We may selectively consider opening new Company-owned Nathan's units on an opportunistic basis. Existing Company-owned units are located in the New York metropolitan area, where we have extensive experience in operating restaurants. We may consider new opportunities in both traditional and captive market settings.

We believe that our international development efforts will continue to garner a variety of interest as a result of the unique product distribution opportunities that we offer. Because of the scalability of our concept and menu offerings, we believe that there are also opportunities to co-brand our restaurant concept and/or menu items with other restaurant concepts internationally. We believe that in addition to restaurant franchising, we could further increase revenues by continuing to offer master development agreements to qualified persons or entities allowing for the operation of franchised restaurants, sub-franchising of restaurants to others, licensing the manufacture of our signature products, selling our signature products through supermarkets or other retail venues and further developing our Branded Product Program. Qualified persons or entities must have satisfactory foodservice experience managing multiple units, the appropriate infrastructure and the necessary financial resources to support the anticipated development of the business.

### ***Co-branding***

We believe that there is a continuing opportunity for co-branding of our restaurant concept and/or menu items with other restaurant concepts, as well as within our restaurant system as new franchise opportunities are developed. Franchisees that have co-branded a Nathan's Famous restaurant with our other brands received a then-current Uniform Franchise Offering Circular ("UFOC") or Franchise Disclosure Document ("FDD") and executed a participation agreement as a rider to their franchise agreement. We initially implemented our co-branding strategy within the Nathan's Famous restaurant system by adding the Arthur Treacher's and Kenny Rogers Roasters brands into Nathan's Famous restaurants. Upon the sale of Kenny Rogers Roasters in April 2008, we discontinued co-branding that brand within new restaurants in the Nathan's Famous system. We have continued our co-branding effort with the Arthur Treacher's brand with new and existing Nathan's Famous franchisees and expect to do so in the future. During fiscal 2014, we expanded our Arthur Treacher's co-branding efforts beyond the Nathan's restaurant system, by marketing the Branded Menu Program to a multi-unit restaurant operator and may seek to further explore opportunities to co-brand the Arthur Treacher's brand to other multi-unit foodservice operators in the future.

At March 30, 2014, the Arthur Treacher's brand was being sold within 51 Nathan's restaurants and the Kenny Rogers Roasters brand was being sold within 34 Nathan's restaurants. We have the right to sell Kenny Rogers products in our Nathan's locations existing in April 2008 and to receive the revenue from those sales. Consequently, we have continued co-branding with Kenny Rogers products within those Nathan's Famous locations.

We believe that our diverse brand offerings complement each other, which has enabled us to market franchises of co-branded units and continue co-branding within our franchised units. We also believe that our various restaurants' products provide us with strong lunch and dinner day-parts.

We continue to market co-branded Nathan's units with Arthur Treacher's within the United States and internationally. We believe that a multi-branded restaurant concept offering strong lunch and dinner day-parts is appealing to both consumers and potential franchisees. Such restaurants are designed to allow the operator to increase sales and leverage the cost of real estate and other fixed costs to provide superior investment returns as compared to many restaurants that are single branded.

### **Licensing Program**

Commencing March 2, 2014, John Morrell & Co., a subsidiary of Smithfield Foods, Inc., replaced SMG, Inc. as Nathan's primary licensee. Pursuant to the Agreement, John Morrell & Co., for a term of 18 years has been granted, among other things, (i) the exclusive right and obligation to manufacture, distribute, market and sell "Nathan's Famous" branded hot dog, sausage and corned beef products in refrigerated consumer packages to be resold through retail

channels (e.g., supermarkets, groceries, mass merchandisers and club stores) within the United States, (ii) a right of first offer to license any other “Nathan’s Famous” branded refrigerated meat products in consumer packages to be resold through retail channels within the United States, on terms to be negotiated in good faith, (iii) the right and obligation to manufacture “Nathan’s Famous” branded hot dog and sausage products in bulk for use in the food service industry within the United States, and (iv) the non-exclusive right and obligation to supply “Nathan’s Famous” natural casing and skinless hot dogs in bulk for use in the “Nathan’s Famous” restaurant system within the United States. The Agreement provides for royalties on packaged products sold to supermarkets, club stores and grocery stores, payable on a monthly basis to the Company equal to 10.8% of net sales, subject to minimum annual guaranteed royalties of at least \$10 million in the first year of the term and which minimum guaranteed royalties increase annually throughout the term. Nathan’s earned \$548,000 during the initial month of the Agreement with John Morrell & Co. Sales during this period were hampered as retail inventory produced by SMG was being sold off. The prior agreement with SMG (the “SMG License Agreement”) provided for royalties ranging between 3% and 5% of sales. The percentage varied based on sales volume, with escalating annual minimum royalties. Nathan’s earned royalties of approximately \$4,600,000 in fiscal 2014 and \$5,506,000 in fiscal 2013 pursuant to the SMG License Agreement which exceeded their contractual minimums established under the Previous License Agreement. While we believe our future operating results will be beneficially impacted by the terms and conditions of the new agreement with John Morrell & Co., as compared to the terms and conditions of the previous agreement with SMG, there can be no assurance thereof (See Item 1A - “Risk Factors”).



For eight years, John Morrell & Co. has licensed from us the right to manufacture and sell branded hot dogs and sausages to selected foodservice accounts. Pursuant to this arrangement, we earned royalties of \$1,594,000 and \$1,442,000 during fiscal 2014 and 2013, respectively. The majority of these royalties were earned from one account. Effective March 2, 2014, this arrangement will now be governed by our new license/supply agreement with John Morrell & Co., pursuant to which John Morrell & Co. will endeavor to perpetuate the business with the existing foodservice accounts they are currently servicing with our bulk products, as well as look for new foodservice opportunities within the environments of supermarkets, club stores, grocery stores and other retail locations that sell our consumer hot dog packages.

Under the new Agreement, the then-existing food service licensing arrangements terminated and were replaced by the new license agreement whereby John Morrell & Co. has the exclusive right to supply only certain food service customers including Sam's Club and other food service operations that exist within supermarkets, club stores, grocery stores and mass merchandisers.

As of March 30, 2014, packaged Nathan's World Famous Beef Hot Dogs continued to be sold in approximately 33,000 supermarkets and mass merchandisers including Costco, Wal-Mart, Sam's Clubs, Target and BJ's located in 45 states. We believe that the overall exposure of the brand and opportunity for consumers to enjoy the Nathan's World Famous Beef Hot Dog in their homes helps promote "Nathan's Famous" restaurant patronage. Royalties earned from these three agreements were approximately 79.2% of our fiscal 2014 license revenues.

We license the manufacture of the proprietary spices which are used to produce Nathan's World Famous Beef Hot Dogs to Saratoga Specialties. During fiscal 2014 and 2013, we earned \$707,000 and \$728,000, respectively, from this license. In the past, Newly Weds Foods, Inc. provided Nathan's with a secondary source of supply although they did not supply any spices during fiscal 2014.

During fiscal 2014, our licensee ConAgra Foods Lamb Weston, Inc. continued to produce and distribute Nathan's Famous frozen French fries and onion rings for retail sale pursuant to a license agreement. These products were distributed within 27 states, primarily on the East Coast and in the South-West and West Coast during fiscal 2014. During fiscal 2014 and 2013, we earned royalties of \$335,000 and \$297,000, respectively, under this agreement. For the contract year ended in July 2013, we earned royalties of \$19,000 in excess of the annual minimum. ConAgra Foods Lamb Weston, Inc. continues to seek to further expand its market penetration in the Eastern United States and in the Mid-West. During fiscal 2013, ConAgra Foods Lamb Weston, Inc. exercised its second option to extend the license agreement through July 2018, pursuant to which the minimum royalties will increase 5% annually.

During fiscal 2014, we continued to license the right to manufacture and sell miniature bagel dogs, franks-in-a-blanket and other hors d'oeuvres through club stores, supermarkets and other retail food stores. Royalties earned under this agreement were approximately \$340,000 during fiscal 2014 and \$258,000 during fiscal 2013. In connection with the extension of the agreement, we amended the license agreement reducing the minimum annual royalties to \$225,000

for the contract year ending September 2014.

In fiscal 2012, we entered into a new license agreement with Inventure Foods, Inc. for the manufacture and sale of Nathan's branded potato chips and three other salty snack products. Royalties earned under this agreement were approximately \$88,000 during fiscal 2014 and \$130,000 during fiscal 2013.

We also have licensing agreements with Hermann Pickle Packers, Inc., Gold Pure Food Products Co., Inc. and others. These companies licensed the "Nathan's Famous" or "Arthur Treacher's" name for the manufacture and sale of various products including mustard, salsa, sauerkraut and pickles. These products have been distributed on a limited basis. Fees and royalties earned from all of these products were approximately \$301,000 during fiscal 2014 and \$210,000 during fiscal 2013.

## **Provisions and Supplies**

Effective March 2, 2014, Nathan's World Famous Beef Hot Dogs are being primarily manufactured by John Morrell & Co. for sale by our restaurant system, Branded Product Program and at retail. Previously, John Morrell & Co. manufactured our proprietary hot dogs in connection with sales pursuant to our Branded Product Program. Our proprietary hot dogs for sale by our restaurant system, Branded Product Program and at retail were produced primarily by SMG in accordance with Nathan's recipes, quality standards and proprietary spice formulations. Nathan's believes that it has reliable sources of supply; however, in the event of any significant disruption in supply, management believes that alternative sources of supply are available. (See Item 1A- "Risk Factors"). Saratoga Specialties produces Nathan's proprietary spice formulations and we have, in the past, also engaged Newly Weds Foods, Inc. as an alternative source of supply. Our frozen crinkle-cut French fries have been produced exclusively by ConAgra Foods Lamb Weston, Inc. Beginning in fiscal 2013, we commenced a relationship with McCain Foods USA as a secondary source of supply of our frozen French fries for our restaurant system. Most other Company provisions are purchased from multiple sources to prevent disruption in supply and to obtain competitive prices. We approve all products and product specifications. We negotiate directly with our suppliers on behalf of the entire system for all primary food ingredients and beverage products sold in the restaurants in an effort to ensure adequate supply of high quality items at competitive prices.

We utilize a unified source for the distribution needs of our restaurant system pursuant to a national food distribution contract with US Foodservice, Inc. This agreement enables our restaurant operators to order and receive deliveries for the majority of their food and paper products directly through this distributor. We believe that this arrangement not only ensures availability of product but is more efficient and cost-effective than having multiple distributors for our restaurant system. Effective August 1, 2013, we entered into a new agreement with US Foodservice that expires on July 31, 2018. The terms and conditions are similar to their previous agreement. Our branded products are delivered to our ultimate customers throughout the country by numerous distributors, including US Foodservice, Inc., SYSCO Corporation, Vistar / VSA, McLane and Performance Foodservice.

## **Marketing, Promotion and Advertising**

Nathan's believes that an integral part of its brand marketing strategy is to continue to build brand awareness through its complimentary points of distribution strategy of selling its signature products through restaurants, the Branded Product Program, the Branded Menu Program, within supermarkets and club stores. We believe that as we continue to build brand awareness and expand our reputation for quality and value, we have further penetrated the markets that we serve and have also entered new markets. We also derive further brand recognition from the Nathan's Famous Hot Dog Eating Contests. In 2013, we hosted 12 regional contests at a variety of high profile locations such as New York New York Hotel and Casino, Las Vegas, NV, and Citifield, Queens, NY, as well as within the cities of St. Paul, MN, Atlanta, GA, Miami, FL, Pittsburgh, PA, Cleveland, OH, Boston, MA and Calgary, Alberta (Canada). In 2014, the qualifying tour will stop in four new cities. We are also premiering at NASCAR events including the annual Speed Street celebration in Charlotte, NC, Long Pond Speedway in the Poconos and Sonoma Raceway in northern California. Nathan's held its' first-ever qualifier at Busch Stadium prior to the St. Louis Cardinals Game in May. Our

first regional contest of 2014 took place in Las Vegas on April 26<sup>th</sup> and stops in 12 additional cities. These regional contests culminate on July 4<sup>th</sup> each year as the regional champions converge at our flagship restaurant in Coney Island, NY, to compete for the coveted “Mustard Yellow Belt.” In 2011, we introduced our first-ever women’s-only Hot Dog Eating Contest which included the top finishing female competitor from each qualifying regional contest. The regional contests typically garner significant amounts of local publicity and the national championship contest that is held on July 4<sup>th</sup> each year generates significant nationwide publicity. The national championship contest has been broadcast on ESPN since 2004.

Nathan’s and John Morrell & Co. will also participate together in running two 6-week radio campaigns during the summer of 2014.

Nathan’s Famous continues to look to sports sponsorships as a strategic marketing opportunity to further our brand recognition. In addition to the branded signage opportunity, Nathan’s is given the opportunity to sell its Nathan’s World Famous Beef Hot Dog and crinkle-cut French fries. In many venues, Nathan’s World Famous Beef Hot Dogs and crinkle-cut French fries are sold at Nathan’s Famous trade-dressed concession stands and as menu items that are served in suites and premium seating areas. Some of Nathans’ current sports sponsorships include:

Professional Baseball: Yankee Stadium-New York Yankees, Citifield-New York Mets;

Professional Hockey and Basketball: The Barclays Center - Brooklyn Nets; The Prudential Center – New Jersey Devils; TD Bank North Arena-Boston Celtics and Boston Bruins, Time Warner Cable Arena-Charlotte Bobcats and The Scottrade Center – St. Louis Blues; and

Professional Football: MetLife Stadium-New York Giants and New York Jets,

We believe that the Company's overall sales and exposure have also been complemented by the sales of Nathan's World Famous Beef Hot Dogs and other Nathan's products through the publicity generated by our Hot Dog Eating Contests and our affiliation with a number of high profile sports arenas. In addition to marketing our products at these venues, the Nathan's Famous brand has also been televised regionally, nationally and internationally.

We maintain an advertising fund for local, regional and national advertising under the Nathan's Famous Systems, Inc. Franchise Agreement. Nathan's Famous franchisees are generally required to spend on local marketing activities or contribute to the advertising fund up to 2.0% of restaurant sales for advertising and promotion. Franchisee contributions to the advertising fund for national marketing support are generally based upon the type of restaurant and its location. The difference, if any, between 2.0% and the contribution to the advertising fund must be expended on local programs approved by us as to form, content and method of dissemination. Certain franchisees, including those operating pursuant to our Branded Menu Program are not obligated to contribute to the advertising fund.

Throughout fiscal 2014, Nathan's primary restaurant marketing emphasis continued to be focused on local store marketing campaigns featuring a value-oriented strategy supplemented with promotional "Limited Time Offers." We anticipate that near-term marketing efforts for Nathan's will continue to emphasize local store marketing activities.

Nathan's marketing efforts include the use of free-standing inserts with coupons in Sunday newspapers. During fiscal 2014, our marketing activities continued with the use of free-standing inserts in addition to a radio flight in June 2013 and use of a localized newsprint campaign in August 2013. Nathan's plans to expand its radio campaign to support all of its marketing activities and continue with the use of free-standing inserts during fiscal 2015. These media campaigns typically reach more than eight million homes per insertion in the area surrounding more than 100 Nathan's company-owned and franchised restaurants. These programs usually feature heavily discounted offers that are designed to attract customers to our restaurants. We monitor the results of these campaigns and may add additional campaigns in the future.

The objective of our Branded Product Program has historically been to provide our foodservice operator customers with value-added, high quality products supported with high quality and attractive point of sale materials and other forms of operational support.

During fiscal 2014, Nathan's marketing efforts for the Branded Product Program concentrated primarily on participation in national, regional and local distributor trade shows. We have also advertised our products in distributor and trade periodicals and initiated distributor sales incentive contests.

Most of the sales of new restaurant franchises to franchisees are achieved through the direct effort of Company personnel. New arrangements with Branded Product Program points of sale are achieved through the combined efforts of Company personnel and a network of foodservice brokers and distributors who also are responsible for direct sales to national, regional and "street" accounts.

During fiscal 2015, we may seek to further expand our internal marketing resources along with our network of foodservice brokers and distributors. We may attempt to emphasize specific venues as we expand our broker network, focus management and broker responsibilities on a regional basis and expand the use of sales incentive programs. We are currently in the process of upgrading our social media platforms by enhancing our corporate website and Facebook page and expanding the use of Twitter.

## **Government Regulation**

We are subject to Federal Trade Commission (“FTC”) regulation and several states’ laws that regulate the offer and sale of franchises. We are also subject to a number of state laws which regulate substantive aspects of the franchisor-franchisee relationship.

The FTC’s “Trade Regulation Rule Concerning Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures” (the “FTC Rule”) requires us to disclose certain information to prospective franchisees. Fifteen states, including New York, also require similar disclosure. While the FTC Rule does not require registration or filing of the disclosure document, 14 states require franchisors to register the disclosure document (or obtain exemptions from that requirement) before offering or selling a franchise. The laws of 17 other states require some form of registration (or a determination that a company is exempt or otherwise not required to register) under “business opportunity” laws, which sometimes apply to franchisors such as the Company. These laws have not precluded us from seeking franchisees in any given area.

Laws that regulate one or another aspect of the franchisor-franchisee relationship presently exist in 24 states as well as Puerto Rico and the U.S. Virgin Islands. These laws regulate the franchise relationship by, for example, requiring the franchisor to deal with its franchisees in good faith, prohibiting interference with the right of free association among franchisees, limiting the imposition of standards of performance on a franchisee, and regulating discrimination among franchisees. Although these laws may also restrict a franchisor in the termination of a franchise agreement by, for example, requiring “good cause” to exist as a basis for the termination, advance notice to the franchisee of the termination, an opportunity to cure a default, and repurchase of inventory or other compensation, these provisions have not had a significant effect on our operations. Our international franchise operations are subject to franchise-related and other laws in the jurisdictions in which our franchisees operate. These laws have not precluded us from enforcing the terms of our franchise agreements, and we do not believe that these laws are likely to significantly affect our operations.

We are not aware of any pending franchise legislation in the U.S. that we believe is likely to significantly affect our operations.

Each Company-owned and franchised restaurant is subject to regulation as to operational matters by federal agencies and to licensing and regulation by state and local health, sanitation, safety, fire and other departments.

We are subject to the Federal Fair Labor Standards Act and various other federal and state laws that govern minimum wages, overtime, working conditions, mandatory benefits, health insurance, and other matters. We are also subject to federal and state environmental regulations, which have not had a material effect on our operations. More stringent

and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. In addition, the Federal Americans with Disabilities Act applies with respect to the design, construction and renovation of all restaurants in the United States.

Each company that manufactures, supplies or sells our products is subject to regulation by federal agencies and to licensing and regulation by state and local health, sanitation, safety and other departments.

We are also subject to the requirement that our restaurants post certain calorie content information for standard menu items, pursuant to Section 4205 of the Patient Protection and Affordable Care Act of 2010. Some of our restaurants are subject to similar requirements that are imposed by certain localities around the country.

Alcoholic beverage control regulations require each restaurant that sells such products to apply to a state authority and, in certain locations, county and municipal authorities, for a license or permit to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of the restaurants, including minimum age of customers and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. Three of our Company-owned restaurants offer beer or wine coolers for sale. Each of these restaurants has current alcoholic beverage licenses permitting the sale of these beverages. We have never had an alcoholic beverage license revoked.



We may be subject in certain states to “dram-shop” statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which wrongfully served alcoholic beverages to such person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance and have never been named as a defendant in a lawsuit involving “dram-shop” statutes.

The Sarbanes-Oxley Act of 2002 and rules promulgated thereunder by the SEC and the Nasdaq Stock Market have imposed substantial new or enhanced regulations and disclosure requirements in the areas of corporate governance (including director independence, director selection and audit, corporate governance and compensation committee responsibilities), equity compensation plans, auditor independence, pre-approval of auditor fees and services and disclosure and internal control procedures. We are committed to industry best practices in these areas.

We believe that we operate in substantial compliance with applicable laws and regulations governing our operations, including the FTC Rule and state franchise laws.

## **Employees**

At March 30, 2014, we had 210 employees, 43 of whom were corporate management and administrative employees, 22 of whom were restaurant managers and 145 of whom were hourly full-time and part-time foodservice employees. We may also employ approximately 100 – 125 seasonal employees during the summer months. Foodservice employees at three Company-owned locations are currently represented by Local 1102 RWSDU UFCW AFL-CIO, CLC, Retail, Wholesale and Department Store Union, under an agreement that expires on June 30, 2014. Employees at a fourth location are represented by the same union pursuant to a different agreement that expires October 31, 2016. We consider our employee relations to be good and have not suffered any strike or work stoppage for more than 41 years.

We provide a training program for managers and assistant managers of our new Company-owned and franchised restaurants. Hourly food workers are trained on site by managers and crew trainers following Company practices and procedures outlined in our operating manuals.

## **Trademarks**

We hold trademark and/or service mark registrations for NATHAN’S, NATHAN’S FAMOUS, NATHAN’S FAMOUS and design, NATHAN’S and Coney Island design, SINCE 1916 NATHAN’S FAMOUS and design, and THE ORIGINAL SINCE 1916 NATHAN’S FAMOUS and design within the United States, with some of these marks holding corresponding foreign trademark and service mark registrations in 69 international jurisdictions, including

Canada and China. We also hold various related marks, FRANKSTERS, FROM A HOT DOG TO AN INTERNATIONAL HABIT, MORE THAN JUST THE BEST HOT DOG! and design, and Mr. Frankie design, for restaurant services and some food items.

We hold trademark and/or service mark registrations for the marks ARTHUR TREACHER'S (stylized), ARTHUR TREACHER'S FISH & CHIPS (stylized), KRUNCH PUP and ORIGINAL within the United States. We hold service mark registrations for ARTHUR TREACHER'S in China and Japan. We also hold service mark registrations for ARTHUR TREACHER'S FISH & CHIPS and design in Canada and Mexico and ARTHUR TREACHER'S FISH & CHIPS and design in Kuwait and the United Arab Emirates.

Our trademark and service mark registrations were granted and expire on various dates. We believe that these trademarks and service marks provide significant value to us and are an important factor in the marketing of our products and services. We believe that we do not infringe on the trademarks or other intellectual property rights of any third parties. We also have licenses to use the Kenny Rogers trademarks and service marks in the then-existing Nathan's restaurants existing on April 2, 2008.

### **Seasonality**

Our business is affected by seasonal fluctuations, including the effects of weather and economic conditions. Historically, sales from Company-owned restaurants, franchised restaurants from which royalties are earned and the Company's earnings have been highest during our first two fiscal quarters, with the fourth fiscal quarter typically representing the slowest period. This seasonality is primarily attributable to weather conditions in the marketplace for our Company-owned and franchised Nathan's restaurants, which is principally the Northeast. We believe that future revenues and profits will continue to be highest during our first two fiscal quarters, with the fourth fiscal quarter representing the slowest period.

## **Competition**

The fast food restaurant industry is highly competitive and can be significantly affected by many factors, including changes in local, regional or national economic conditions, changes in consumer tastes, consumer concerns about the nutritional quality of quick-service food and increases in the number of, and particular locations of, competing restaurants.

Our restaurant system competes with numerous restaurants and drive-in units operating on both a national and local basis, including major national chains with greater financial and other resources than ours. We also compete with local restaurants and diners on the basis of menu diversity, food quality, price, size, site location and name recognition. There is also active competition for management personnel, as well as for suitable commercial sites for owned or franchised restaurants.

We believe that our emphasis on our signature products and the reputation of these products for taste and quality set us apart from our major competitors. As fast food companies have experienced flattening growth rates and declining average sales per restaurant, many of them have adopted “value pricing” and/or deep discount strategies. Nathan’s markets our own form of “value pricing,” selling combinations of different menu items for a total price lower than the usual sale price of the individual items and other forms of price sensitive promotions. Our value pricing strategy may offer multi-sized alternatives to our value-priced combo meals.

We also compete with many franchisors of restaurants and other business concepts for the sale of franchises to qualified and financially capable franchisees.

Our Branded Product Program competes directly with a variety of other nationally-recognized hot dog companies and other food companies, many of these entities have significantly greater resources than we do. Our products primarily compete based upon price, quality and value to the foodservice operator and consumer. We believe that Nathan’s reputation for superior quality, along with the ability to provide operational support to the foodservice operator, provides Nathan’s with a competitive advantage.

Our retail licensing program for the sale of packaged foods within supermarkets competes primarily on the basis of reputation, flavor, quality and price. In most cases, we compete against other nationally-recognized brands that have significantly greater resources than those at our disposal.

## **Available Information**

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and a proxy statement on Schedule 14A. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C., 20549. The public may obtain information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information about issuers such as us that file electronically with the SEC.

In addition, electronic copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statement on Schedule 14A and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) under the Exchange Act are available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The Board of Directors has also adopted, and we have posted in the Investor Relations section of our website, written Charters for each of the Board's standing committees. We will provide without charge a copy of the Charter of any standing committee of the Board upon a stockholder's request to us at Nathan's Famous, Inc., One Jericho Plaza, Second Floor - Wing A, Jericho, NY 11753, Attention: Secretary.

For financial information regarding our results of operations, please see our consolidated financial statements beginning on page F-1.

Item 1A. Risk Factors.

Our business is subject to various risks. Certain risks are specific to each way we do business, such as through Company-owned restaurants, franchised restaurants, branded products and retail, while other risks, such as health-related or economic risks, may affect all of the ways that we do business.

Investors should carefully consider all of the information set forth in this Form 10-K, including the following risk factors, before deciding to invest in any of the Company's securities. The following risk factors are not exhaustive. Additional risks and uncertainties not presently known to the Company may also adversely impact its business. The Company's business, financial condition, results of operations or prospects could be materially adversely affected by any of these risks. In that case, the trading price of the Company's common stock could decline. This Form 10-K also contains forward-looking statements that involve risks and uncertainties. The Company's results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks it faces described below and elsewhere. See "Forward-Looking Statements" above.

***Our agreement with SMG expired on March 1, 2014 and we entered into a new agreement with John Morrell & Co. which commenced on March 2, 2014. The risks associated with a change of our primary supplier have the potential to impact the operations and profitability of our Licensing, Branded Product Program ("BPP") and Restaurant businesses as well as Nathan's reputation.***

Our agreement with SMG expired on March 1, 2014 and we entered into a new agreement with John Morrell & Co. to become our primary supplier / licensee commencing March 2, 2014. The risks associated with a change of our primary supplier / licensee could materially impact the operations and profitability of our Licensing, BPP and Restaurant businesses as well as Nathan's overall brand reputation. There are risks associated with changing a key supplier including whether we can successfully implement an orderly transition of the business to John Morrell & Co. and whether John Morrell & Co. will perform its obligations or have the same level of commitment to perform its obligations for the duration of the agreement. There are also certain risks associated with engaging John Morrell & Co. as the exclusive licensee including (i) whether we can maintain or improve the quality and consistency of our products that is expected by our customers (ii) whether John Morrell & Co. will have a sufficient supply of products available for our restaurant, foodservice and retail customers on a timely basis and (iii) whether John Morrell & Co. will deliver sales and marketing efforts at the retail level that are at least consistent with SMG.

While we believe that for the most part, we have been able to manage a transparent transition, the failure to provide the same or higher quality and consistency and/or implement an orderly transition of the business could adversely affect our reputation and results of operations of our licensing, Branded Product Program and restaurant businesses.

***John Morrell & Co. currently has three manufacturing facilities producing different Nathan's products and a long-term significant interruption of a primary facility could potentially disrupt our operations.***

John Morrell & Co. currently has three manufacturing facilities producing different Nathan's products. A temporary closure of any of the three plants could potentially cause a temporary disruption to Nathan's source of supply, potentially causing some or all of certain shipments to customers to be delayed. A longer-term significant interruption at any of these production facilities, whether as a result of a natural disaster or other causes, could significantly impair our ability to operate our business on a day-to-day basis while John Morrell & Co. determined how to make up for any lost production capabilities, during which time we may not be able to secure sufficient alternative sources of supply on acceptable terms, if at all. In addition, a long-term disruption in supply to our customers could cause our customers to determine not to purchase some or all of their hot dogs from us in the future, which in turn would adversely affect Nathan's business, results of operations and financial condition. Furthermore, such a disruption in supply might affect Nathan's in the eyes of consumers and the retail trade, which damage might negatively impact the Company's overall business in general, which could result in a material adverse effect on our business, results of operations or financial condition.

*The loss of one or more of our key suppliers could lead to supply disruptions, increased costs and lower operating results.*

The Company has historically relied on one supplier for the majority of its hot dogs and another supplier for a majority of its supply of frozen French fries for its restaurant system. An interruption in the supply of product from either one of these suppliers without the Company obtaining an alternative source of supply on comparable terms could lead to supply disruptions, increased costs and lower operating results.

During fiscal 2013, we entered into a new agreement with a secondary hot dog manufacturer that continues to also supply natural casing hot dogs for the Nathan's restaurant business.

Additionally, a majority of the frozen crinkle-cut French fries sold through Nathan's franchised restaurants have been obtained from one supplier. Beginning in fiscal 2013, we began a relationship with a secondary source of supply of our frozen French fries for our restaurant system. During fiscal 2014, McCain Foods USA supplied approximately 15% of the frozen crinkle-cut French fries sold through Nathan's franchised restaurants. We expect that McCain Foods USA will supply between 10% and 15% of the frozen crinkle-cut French fries sold through Nathan's franchised restaurants during fiscal 2015.

In the event that the hot dog or French fry suppliers are unable to fulfill Nathan's requirements for any reason, including due to a significant interruption in its manufacturing operations, whether as a result of a natural disaster or for other reasons, such interruption could significantly impair the Company's ability to operate its business on a day-to-day basis.

In the event that the Company is unable to find one or more alternative suppliers of hot dogs or French fries on a timely basis, there could be a disruption in the supply of product to Company-owned restaurants, franchised restaurants and Branded Product accounts, which would damage the Company, its franchisees and Branded Product customers and, in turn, negatively impact the Company's financial results. In addition, any gap in supply to retail customers would result in lost royalty payments to the Company, which could have a significant adverse financial impact on the Company's results of operations. Furthermore, any gap in supply to retail customers may damage the Nathan's Famous trademarks in the eyes of consumers and the retail trade, which damage might negatively impact the Company's overall business in general and impair the Company's ability to continue its retail licensing program.

Additionally, there is no assurance that any supplemental sources of supply would be capable of meeting the Company's specifications and quality standards on a timely and consistent basis or that the financial terms of such supply arrangement will be as favorable as the Company's present terms with its hot dog or French fry supplier, as the case may be.

Any of the foregoing occurrences may cause disruptions in supply of the Company's hot dog or French fry products, as the case may be, damage the Company's franchisees and Branded Product customers, adversely impact the Company's financial results and/or damage the Nathan's Famous trademarks.

***Nathan's currently uses US Foodservice as the primary distributor for its Company-owned restaurants and the vast majority of its franchise system, including its Branded Menu locations pursuant to a five-year contract.***

Nathan's currently uses US Foodservice as the primary distributor for its Company-owned restaurants and the vast majority of its franchise system, including its Branded Menu locations pursuant to a five-year contract. In December 2013, SYSCO Foods announced that they are seeking to acquire US Foodservice, Inc. The merger of these two national broad-line distributors would provide the combined entity with an estimated market share of 30% of foodservice distribution making them the single dominant distributor in the industry. This merger has the potential to significantly reduce competition for foodservice distribution. Both SYSCO and US Foods purchase significant amounts of product from our Branded Product Program. The merger has the potential to increase our cost of sales and use their size to negotiate lower selling prices of our Branded Product Program.



***A significant amount of our licensing and BPP revenue is from a small number of licensees and BPP accounts. The loss of any one or more of those licensees or BPP accounts could harm our profitability and operating results.***

SFG accounted for approximately 54% of our fiscal 2014 licensing revenue. John Morrell & Co. accounted for approximately 34% of our fiscal 2014 licensing revenue whose business is weighted towards one high volume user who is not sold pursuant to a formal agreement. It is expected that beginning in fiscal 2015, the vast majority of license royalties will be earned from John Morrell & Co. In the event that this licensee or any other significant licensee, or its customers, experience financial difficulties or is not willing to do business with us in the future on terms acceptable to management, there could be a material adverse effect on our business, results of operations or financial condition.

In addition, approximately 76% of our Branded Product Program business is from seven accounts, including one account representing approximately 27% of the Branded Product Program business, with which we have relatively short-term contracts. In the event that these BPP customers experience financial difficulties or, upon the expiration of their existing agreements are not willing to do business with us in the future on terms acceptable to management, there could be a material adverse effect on our business, results of operations or financial condition.

***The quick-service restaurant business is highly competitive, and that competition could lower revenues, margins and market share.***

The quick-service restaurant business of the foodservice industry is intensely competitive regarding price, service, location, personnel and type and quality of food. Nathan's and its franchisees compete with international, national, regional and local retailers primarily through the quality, variety and value perception of food products offered. Other key competitive factors include the number and location of restaurants, quality and speed of service, attractiveness of facilities, effectiveness of advertising and marketing programs, and new product development. Nathan's anticipates competition will continue to focus on pricing. Many of Nathan's competitors have substantially larger marketing budgets, which may provide them with a competitive advantage. Changes in pricing or other marketing strategies by these competitors can have an adverse impact on our sales, earnings and growth. For example, many of those competitors have adopted "value pricing" strategies intended to lure customers away from other companies, including Nathan's. Consequently, these strategies could have the effect of drawing customers away from companies which do not engage in discount pricing and could also negatively impact the operating margins of competitors which attempt to match their competitors' price reductions. Extensive price discounting in the quick-service restaurant business could have an adverse effect on our financial results.

In addition, Nathan's system competes within the foodservice market and the quick-service restaurant business not only for customers but also for management and hourly employees and qualified franchisees. If Nathan's is unable to maintain its competitive position, it could experience downward pressure on prices, lower demand for products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share.

***Changes in economic, market and other conditions could adversely affect Nathan's and its franchisees, and thereby Nathan's operating results.***

The quick-service restaurant business is affected by changes in international, national, regional, and local economic conditions, consumer preferences and spending patterns, demographic trends, consumer perceptions of food safety, weather, traffic patterns, the type, number and location of competing restaurants, and the effects of war or terrorist activities and any governmental responses thereto. Factors such as inflation, higher costs for each of food, labor, benefits and utilities, the availability and cost of suitable sites, fluctuating insurance rates, state and local regulations and licensing requirements, legal claims, and the availability of an adequate number of qualified management and hourly employees also affect restaurant operations and administrative expenses. The ability of Nathan's and its franchisees to finance new restaurant development, improvements and additions to existing restaurants, and the acquisition of restaurants from, and sale of restaurants to, franchisees is affected by economic conditions, including interest rates and other government policies impacting land and construction costs and the cost and availability of borrowed funds.

***Current restaurant locations may become unattractive, and attractive new locations may not be available for a reasonable price, if at all, which may reduce Nathan's revenue.***

The success of any restaurant depends in substantial part on its location. There can be no assurance that current locations will continue to be attractive as demographic patterns change. Neighborhood or economic conditions where restaurants are located could decline in the future, thus resulting in potentially reduced sales in those locations. If Nathan's and its franchisees cannot obtain desirable additional and alternative locations at reasonable prices, Nathan's results of operations would be adversely affected.

***Any perceived or real health risks related to the food industry could adversely affect our ability to sell our products.***

We are subject to risks affecting the food industry generally, including risks posed by the following:

- food spoilage or food contamination;
- consumer product liability claims;
- product tampering; and
- the potential cost and disruption of a product recall.

Our products are susceptible to contamination by disease-producing organisms, or pathogens, such as listeria monocytogenes, salmonella, campylobacter, hepatitis A, trichinosis and generic E. coli. Because these pathogens are generally found in the environment, there is a risk that these pathogens could be introduced to our products as a result of improper handling at the manufacturing, processing, foodservice or consumer level. Our suppliers' manufacturing facilities and products, as well as our franchisee and Company-operated restaurant operations, are subject to extensive laws and regulations relating to health, food preparation, sanitation and safety standards. Difficulties or failures by these companies in obtaining any required licenses or approvals or otherwise complying with such laws and regulations could adversely affect our revenue that is generated from these companies. Furthermore, we cannot assure you that compliance with governmental regulations by our suppliers or in connection with restaurant operations will eliminate the risks related to food safety. In addition, our beef products are also subject to the risk of contamination from bovine spongiform encephalopathy.

Events reported in the media, such as incidents involving food-borne illnesses or food tampering, whether or not accurate, can cause damage to each of Nathan's brand's reputation and affect sales and profitability. Reports, whether true or not, of food-borne illnesses (such as e-coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis or salmonella) and injuries caused by food tampering have in the past severely injured the reputations of participants in the quick-service restaurant business and could in the future affect Nathan's as well. Each of Nathan's brand's reputation is an important asset to the business; as a result, anything that damages a brand's reputation could immediately and severely hurt systemwide sales and, accordingly, revenue and profits. If customers become ill from

food-borne illnesses, Nathan's could also be forced to temporarily close some restaurants. In addition, instances of food-borne illnesses or food tampering, even those occurring solely at the restaurants of competitors, could, by resulting in negative publicity about the restaurant industry, adversely affect system sales on a local, regional or systemwide basis. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a temporary closure of any of Nathan's restaurants, could materially harm Nathan's business, results of operations and financial condition.

Additionally, the Company may be subject to liability if the consumption of any of its products causes injury, illness, or death. A significant product liability judgment or a widespread product recall may negatively impact the Company's sales and profitability for a period of time depending on product availability, competitive reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that Company products caused illness or injury could adversely affect the Company's reputation with existing and potential customers and its corporate and brand image. Injury to Nathans' or a brand's reputation would likely reduce revenue and profits.

*Changing health or dietary preferences may cause consumers to avoid products offered by Nathan's in favor of alternative foods.*

The foodservice industry is affected by consumer preferences and perceptions. If prevailing health or dietary preferences, perceptions and governmental regulation cause consumers to avoid the products offered by Nathan's restaurants in favor of alternative or healthier foods, demand for Nathan's products may be reduced and its business could be harmed.

***Nathan's is subject to health, employment, environmental and other government regulations, and failure to comply with existing or future government regulations could expose Nathan's to litigation, damage Nathan's or its brands' reputation and lower profits.***

Nathan's and its franchisees are subject to various federal, state and local laws, rules or regulations affecting their businesses. To the extent that the standards imposed by local, state and federal authorities are inconsistent, they can adversely affect popular perceptions of our business and increase our exposure to litigation or governmental investigations or proceedings. We may be unable to manage effectively the impact of new, potential or changing regulations that affect or restrict elements of our business. The successful development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use (including the placement of drive-thru windows), environmental (including litter), traffic and other regulations. There can be no assurance that we and our franchisees will not experience material difficulties or failures in obtaining the necessary licenses or approvals for new restaurants which could delay the opening of such restaurants in the future. Restaurant operations are also subject to licensing and regulation by state and local departments relating to health, food preparation, sanitation and safety standards, federal and state labor laws (including applicable minimum wage requirements, overtime, working and safety conditions and citizenship requirements), federal and state laws prohibiting discrimination and other laws regulating the design and operation of facilities, such as the Federal Americans with Disabilities Act of 1990. If Nathan's fails to comply with any of these laws, it may be subject to governmental action or litigation, and accordingly its reputation could be harmed.

Injury to Nathan's or a brand's reputation would, in turn, likely reduce revenue and profits. In addition, difficulties or failures in obtaining any required licenses or approvals could delay or prevent the development or opening of a new restaurant or renovations to existing restaurants, which would adversely affect our revenue.

In recent years, there has been an increased legislative, regulatory and consumer focus on nutrition and advertising practices in the food industry, particularly among quick-service restaurants. As a result, Nathan's may become subject to regulatory initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of its food products, which could increase expenses. The operation of Nathan's franchise system is also subject to franchise laws and regulations enacted by a number of states and rules promulgated by the U.S. Federal Trade Commission. Any future legislation regulating franchise relationships may negatively affect Nathans' operations, particularly its relationship with its franchisees. Failure to comply with new or existing franchise laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales. Changes in applicable accounting rules imposed by governmental regulators or private governing bodies could also affect Nathans' reported results of operations, which could cause its stock price to fluctuate or decline.

***Nathan's may not be able to adequately protect its intellectual property, which could decrease the value of Nathan's or its brands and products.***

The success of Nathans' business depends on the continued ability to use existing trademarks, service marks and other components of each of Nathan's brands in order to increase brand awareness and further develop branded products. Nathan's may not be able to adequately protect its trademarks, and the use of these trademarks may result in liability for trademark infringement, trademark dilution or unfair competition. All of the steps Nathan's has taken to protect its intellectual property may not be adequate.

***Nathan's earnings and business growth strategy depends in large part on the success of its restaurant franchisees and on new restaurant openings. Nathan's or its brand's reputation may be harmed by actions taken by restaurant franchisees that are otherwise outside of Nathans' control.***

A significant portion of Nathans' earnings comes from royalties, fees and other amounts paid by Nathan's restaurant franchisees. Nathan's franchisees are independent contractors, and their employees are not employees of Nathan's. Nathan's provides training and support to, and monitors the operations of, its franchisees, but the quality of their restaurant operations may be diminished by any number of factors beyond Nathans' control. Consequently, the franchisees may not successfully operate their restaurants in a manner consistent with Nathans' high standards and requirements, and franchisees may not hire and train qualified managers and other restaurant personnel. Any operational shortcoming of a franchised restaurant is likely to be attributed by consumers to an entire brand or Nathan's system, thus damaging Nathan's or a brand's reputation, potentially adversely affecting Nathans' business, results of operations and financial condition.

Growth in our restaurant revenue and earnings is significantly dependent on new restaurant openings. Numerous factors beyond our control may affect restaurant openings. These factors include but are not limited to:

- our ability to attract new franchisees;
- the availability of site locations for new restaurants;
- the ability of potential restaurant owners to obtain financing, which has become more difficult due to current market conditions and operating results;
- the ability of restaurant owners to hire, train and retain qualified operating personnel;
- construction and development costs of new restaurants, particularly in highly-competitive markets;
- the ability of restaurant owners to secure required governmental approvals and permits in a timely manner, or at all;
- and
- adverse weather conditions.

***Nathan's earnings and business growth strategy depends in large part on the success of its product licensees, and product manufacturers. Nathan's or its brand's reputation may be harmed by actions taken by its product licensees or product manufacturers that are otherwise outside of Nathans' control.***

A significant portion of Nathans' earnings has come from royalties paid by Nathan's product licensees such as SMG, Inc., John Morrell & Co. and ConAgra Foods Lamb Weston, Inc., Saratoga Specialties, Inc., a wholly owned subsidiary of John Morrell & Co. and Perfection Foods. Although our agreements with these licensees contain numerous controls and safeguards, and Nathan's monitors the operations of its product licensees, Nathan's licensees are independent contractors, and their employees are not employees of Nathan's. Accordingly, Nathan's cannot necessarily control the performance of its licensees under their license agreements, including without limitation, the licensee's continued best efforts to manufacture Nathan's products for retail distribution and our foodservice businesses, timely delivery of the licensed products, market the licensed products and assure the quality of the licensed products produced and/or sold by a product licensee. Any shortcoming in the quality, quantity and/or timely delivery of a licensed product is likely to be attributed by consumers to an entire brand's reputation, potentially adversely affecting Nathans' business, results of operations and financial condition. In addition, a licensee's failure to effectively market the licensed products may result in decreased sales, which would adversely affect Nathan's business, results of operations and financial condition. Also, to the extent that the terms and conditions of any of these license agreements change or we change any of our product licensees, our business, results of operations and financial condition could be materially affected. While we believe that we will be able to manage a transparent transition from SMG to John Morrell & Co., there can be no assurance that we will be successful in these efforts. Our inability to successfully control the transition, as well as other risks associated with having a new primary supplier of hot dogs could adversely affect our results of operations.

***Leasing of real estate exposes Nathan's to possible liabilities and losses.***

Nathan's leases land and/or buildings for certain restaurants, which can include the sub-letting of leased land and or buildings to franchisees or companies other than Nathan's franchisees. Accordingly, Nathan's is subject to all of the risks associated with owning, leasing and sub-letting real estate. Nathan's generally cannot cancel these leases. If an existing or future store is not profitable, and Nathan's decides to close it, Nathan's may nonetheless be committed to perform its obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of the leases expires, Nathan's may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause Nathan's to close stores in desirable locations.



***Nathan's may evaluate acquisitions, joint ventures and other strategic initiatives, any of which could distract management or otherwise have a negative effect on revenue, costs and stock price.***

Nathan's future success may depend on opportunities to buy or obtain rights to other businesses that could complement, enhance or expand its current business or products or that might otherwise offer growth opportunities. In particular, Nathan's may evaluate potential mergers, acquisitions, joint venture investments, strategic initiatives, alliances, vertical integration opportunities and divestitures. Nathan's has no commitments, agreements or understandings with respect to any of such transactions. Any attempt by Nathan's to engage in these transactions may expose it to various inherent risks, including:

- not accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates;
- the potential loss of key personnel of an acquired business;
- the ability to achieve projected economic and operating synergies;
- difficulties in successfully integrating, operating, maintaining and managing newly-acquired operations or employees;
- difficulties maintaining uniform standards, controls, procedures and policies;
- unanticipated changes in business and economic conditions affecting an acquired business;
- the possibility of impairment charges if an acquired business performs below expectations; and
- the diversion of management's attention from the existing business to integrate the operations and personnel of the acquired or combined business or implement the strategic initiative.

***Nathan's annual and quarterly financial results may fluctuate depending on various factors, many of which are beyond its control, and, if Nathan's fails to meet the expectations of investors, Nathan's share price may decline.***

Nathan's sales and operating results can vary from quarter to quarter and year to year depending on various factors, many of which are beyond its control. Certain events and factors may directly and immediately decrease demand for Nathan's products. These events and factors include:

- changes in customer demand;
- variations in the timing and volume of Nathans' sales and franchisees' sales;
- changes in the terms of our existing license/supply agreements and/or the replacement of existing licenses or suppliers;
- sales promotions by Nathan's and its competitors;
- changes in average same-store sales and customer visits;
- variations in the price, availability and shipping costs of supplies;
- seasonal effects on demand for Nathan's products;
- unexpected slowdowns in new store development efforts;
- changes in competitive and economic conditions generally;

changes in the cost or availability of ingredients or labor;  
weather and acts of God; and  
changes in the number of franchises sold and in franchise agreement renewals.

*Nathans' operations are influenced by adverse weather conditions.*

Weather, which is unpredictable, can impact Nathans' restaurant sales. Harsh weather conditions that keep customers from dining out result in lost opportunities for our restaurants. A heavy snowstorm or a tropical storm or hurricane in the Northeast can shut down an entire metropolitan area, resulting in a reduction in sales in that area at Company-owned and franchised restaurants. For instance, Superstorm Sandy forced the temporary closing of all of the Company-owned restaurants. Our flagship Coney Island restaurant and our new Boardwalk restaurant were closed for an extended period of time and re-opened on May 20, 2013 and March 18, 2013, respectively. In addition, seventy-eight franchised restaurants including 18 Branded Menu locations were closed for varying periods of time, one of which has not re-opened. Our fourth quarter includes winter months and historically has a lower level of sales at Company-owned and franchised restaurants. These sales were significantly impacted due to the harsh winter weather experienced during the fourth quarter fiscal 2014. Additionally, our Company-owned restaurants at Coney Island are heavily dependent on favorable weather conditions during the summer season. Rain during the weekends and / or unseasonably cold temperatures will negatively impact the number of patrons going to the Coney Island beach locations. Because a significant portion of our restaurant operating costs is fixed or semi-fixed in nature, the loss of sales during these periods hurts our operating margins, and can result in restaurant operating losses. For these reasons, a quarter-to-quarter comparison may not be a good indication of Nathans' performance or how it may perform in the future.

***Due to the concentration of Nathan's restaurants in particular geographic regions, our business results could be impacted by the adverse economic conditions prevailing in those regions regardless of the state of the national economy as a whole.***

As of March 30, 2014, we and our franchisees (excluding units operated pursuant to our Branded Menu Program) operated Nathan's restaurants in 28 states, the Cayman Islands, and eight foreign countries. As of March 30, 2014, the highest concentration of operating units were in the Northeast, principally in New York and New Jersey. This geographic concentration in the Northeast can cause economic conditions in particular areas of the country to have a disproportionate impact on our overall results of operations. It is possible that adverse economic conditions in states or regions that contain a high concentration of Nathan's restaurants could have a material adverse impact on our results of operations in the future.

***We rely extensively on computer systems, its point of sales system and information technology to manage our business. Any disruption in our computer systems, point of sales system or information technology may adversely affect our ability to run our business.***

We are significantly dependent upon our computer systems, point of sales system and information technology to properly conduct our business. A failure or interruption of computer systems, point of sales systems or information technology could result in the loss of data, business interruptions or delays in business operations. Further, despite our considerable efforts and technological resources to secure our computer systems, point of sales systems and information technology, security breaches, such as unauthorized access and computer viruses, may occur resulting in system disruptions, shutdowns or unauthorized disclosure of confidential information. Any security breach of our computer systems, point of sales systems or information technology may result in adverse publicity, loss of sales and profits, penalties or loss resulting from misappropriation of information.

***We may be required to recognize additional asset impairment and other asset-related charges.***

We have long-lived assets, a cost-method investment, goodwill and intangible assets and have incurred impairment charges in the past with respect to those assets. In accordance with applicable accounting standards, we test for impairment annually, or more frequently, if there are indicators of impairment, such as:

significant adverse changes in the business climate;

current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with long-lived assets;

operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with cost method investment;

a current expectation that more-likely-than-not (e.g., a likelihood that is more than 50%) long-lived assets will be sold or otherwise disposed of significantly before the end of their previously estimated useful life; and

a significant drop in our stock price.

Based upon future economic and capital market conditions, future impairment charges could be incurred.

***Catastrophic events may disrupt Nathans' business.***

Unforeseen events, or the prospect of such events, including war, terrorism and other international conflicts, such as a continued interruption in the relationship between the United States and Russia, public health issues such as epidemics or pandemics, labor unrest and natural disasters such as earthquakes, hurricanes or other extreme adverse weather and climate conditions, whether occurring in the United States or abroad, could disrupt Nathans' operations, disrupt the operations of franchisees, suppliers or customers, or result in political or economic instability. These events could negatively impact consumer spending, thereby reducing demand for Nathan's products, or the ability to receive products from suppliers. Nathan's does not have insurance policies that insure against certain of these risks. To the extent that Nathan's does maintain insurance with respect to some of these risks, its receipt of the proceeds of such policies may be delayed or the proceeds may be insufficient to offset its losses fully.

***Nathans' international operations are subject to various factors of uncertainty.***

Nathans' business outside of the United States is subject to a number of additional factors, including international economic and political conditions, differing cultures and consumer preferences, currency regulations and fluctuations, diverse government regulations and tax systems, uncertain or differing interpretations of rights and obligations in connection with international franchise agreements and the collection of royalties from international franchisees, the availability and cost of land and construction costs, and the availability of appropriate franchisees. In developing markets, we may face risks associated with new and untested laws and judicial systems. Although Nathan's believes it has developed the support structure required for international growth, there is no assurance that such growth will occur or that international operations will be profitable.

***Increases in the cost of food and paper products could harm our profitability and operating results.***

The cost of the food and paper products we use depends on a variety of factors, many of which are beyond our control. Food and paper products typically represent approximately 25% to 30% of our cost of restaurant sales. We purchase large quantities of beef and our beef costs in the United States represent approximately 80% to 90% of our food costs. The market for beef is particularly volatile and is subject to significant price fluctuations due to seasonal shifts, climate conditions such as the 2012 drought in the Midwest, industry demand and other factors beyond our control. For example, in the past, reduced supply and increased demand in beef resulted in shortages, which required us to pay significantly higher prices for the beef we purchased. For the fiscal year ended March 30, 2014, the market price for hot dogs increased 7.5% compared to the fiscal year ended March 31, 2013. As the price of beef or other food products that we use in our operations increases significantly, particularly in the Branded Product Program, and we choose not to pass, or cannot pass, these increases on to our customers, our operating margins will decrease.

Fluctuations in weather, supply and demand and economic conditions could adversely affect the cost, availability and quality of some of our critical products, including beef. Our inability to obtain requisite quantities of high-quality ingredients would adversely affect our ability to provide the menu items that are central to our business, and the highly competitive nature of our industry may limit our ability to pass through increased costs to our customers. Continuing increases in the cost of fuel would increase the distribution costs of our prime products thereby increasing the food and paper cost to us and to our franchisees, thus negatively affecting profitability.

Nathan's has sought to lock in the cost of a portion of its beef purchases by entering into various commitments to purchase hot dogs during certain periods in an effort to ensure supply of product at a fixed cost of product. However, Nathan's may be unable to enter into similar purchase commitments in the future. In addition, Nathan's does not have the ability to effectively hedge all of its beef purchases using futures or forward contracts without incurring undue financial cost and risk.

***Labor shortages or increases in labor costs could slow our growth or harm our business.***

Our success depends in part upon our ability and the ability of our franchisees to continue to attract, motivate and retain regional operational and restaurant general managers with the qualifications to succeed in our industry and the motivation to apply our core service philosophy. If we or our franchisees are unable to continue to recruit and retain sufficiently qualified managers or to motivate our employees to achieve sustained high service levels, our business and our growth could be adversely affected. Competition for these employees could require the payment of higher wages that could result in higher labor costs. In addition, increases in the minimum wage or labor regulation could increase labor costs. New York State approved legislation which increased the minimum wage beginning December 31, 2013 and on December 31, 2014 and December 31, 2015. The voters in New Jersey voted to increase to the minimum wage in the 2013 general election. Additionally, the Federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. Mayor DeBlasio, of the City of New York, has stated that New York City should have additional increases in the minimum wage. Our primary union contract ends on June 30, 2014 and a new union contract could result in additional costs to us. Effective April 1, 2014, the City of New York passed legislation extending paid sick leave to all employees, including part-time employees which potentially will increase our labor costs in three of our Company-operated restaurants. We may be unable to increase our prices in order to pass these increased labor costs on to our customers, in which case our margins and our franchisees' margins would be negatively affected. In the event that franchisees' margins are adversely affected, it may affect our ability to attract new franchisees which would adversely affect Nathan's business, results of operations and financial condition.

***We face risks of litigation and pressure tactics, such as strikes, boycotts and negative publicity from customers, franchisees, suppliers, employees and others, which could divert our financial and management resources and which may negatively impact our financial condition and results of operations.***

Class action lawsuits have been filed, and may continue to be filed, against various quick-service restaurants alleging, among other things, that quick-service restaurants have failed to disclose the health risks associated with high-fat foods and that quick-service restaurant marketing practices have targeted children and encouraged obesity. In addition, we face the risk of lawsuits and negative publicity resulting from injuries, including injuries to infants and children, allegedly caused by our products, toys and other promotional items available in our restaurants or by our playground equipment.

In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial judgment against us could negatively impact our business, results of operations, financial condition and brand reputation, hindering our ability to attract and retain franchisees, expand our Branded Product Program and otherwise grow our business in the United States and internationally.

In addition, activist groups, including animal rights activists and groups acting on behalf of franchisees, the workers who work for suppliers and others, have in the past, and may in the future, use pressure tactics to generate adverse publicity by alleging, for example, inhumane treatment of animals by our suppliers, poor working conditions or unfair purchasing policies. These groups may be able to coordinate their actions with other groups, threaten strikes or boycotts or enlist the support of well-known persons or organizations in order to increase the pressure on us to achieve their stated aims. In the future, these actions or the threat of these actions may force us to change our business practices or pricing policies, which may have a material adverse effect on our business, results of operations and financial condition.

Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, mismanagement of the system, unfair or unequal treatment, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, including those relating to overtime compensation. We have been subject to these types of claims in the past, and if one or more of these claims were to be successful or if there is a significant increase in the number of these claims, our business, results of operations and financial condition could be harmed.

***Our certificate of incorporation and by-laws and other corporate documents include anti-takeover provisions which may deter or prevent a takeover attempt.***

Some provisions of our certificate of incorporation, by-laws, other corporate documents and provisions of Delaware law may discourage takeover attempts and hinder a merger, tender offer or proxy contest targeting us, including

transactions in which stockholders might receive a premium for their shares. This may limit the ability of stockholders to approve a transaction that they may think is in their best interest. The corporate documents include:

*Shareholder Rights Agreement.* We adopted a new rights agreement which provided for a dividend distribution of one right for each share to holders of record of common stock on June 17, 2013. The rights become exercisable in the event any person or group accumulates 15% or more of our common stock, or if any person or group announces an offer which would result in it owning 15% or more of our common stock and our management does not approve of the proposed ownership.



*Employment Contracts.* The employment agreements between us and each of Wayne Norbitz, Howard M. Lorber and Eric Gatoff provide that in the event there is a change in control of Nathan's, the employee has the option, exercisable within six months for Mr. Norbitz and one year for each of Messrs. Gatoff and Lorber, of his becoming aware of the change in control, to terminate his employment agreement. Upon such termination, Mr. Norbitz has the right to receive a lump sum payment equal to three times his respective salary. Mr. Gatoff has the right to receive a lump sum payment equal to his salary and annual bonus for a one-year period, and Mr. Lorber has the right to receive a lump sum payment equal to the greater of (i) his salary and annual bonuses for the remainder of the employment term or (ii) 2.99 times his salary and annual bonus plus the difference between the exercise price of any exercisable options having an exercise price of less than the then current market price of our common stock and such current market price. Mr. Lorber will also receive a tax gross up payment to cover any excise tax.

***The recent economic crisis and erosion of consumer confidence has negatively impacted the Company's profitability and operating results and may continue to do so.***

Recently, the United States economy has experienced a severe recession, resulting in rising unemployment, an upheaval in the credit markets and an erosion in consumer confidence. The Company believes this has resulted in reduced sales at the Company's owned and franchised restaurants, an increase in uncollectible accounts receivable and adversely affected the ability of potential new franchisees from obtaining funding, all of which have adversely affected the Company's operating results. If the recent economic crisis continues to result in reduced sales at our Company-owned and franchised restaurants and adversely impact franchisees' ability to finance purchases or restructurings of restaurant franchises, or if it begins to affect sales of licensed products for which we receive royalties, it will negatively impact the Company's business and operating results.

***Changes in the U.S. healthcare system could increase our cost of doing business.***

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 with minimum levels of healthcare coverage or incur certain financial penalties. Nathan's workforce includes numerous part-time workers, which may increase our health care costs and expose Nathan's to certain excise taxes beginning in 2014, in the event that healthcare is offered to less than 95% of its full-time employees, as defined by the legislation.

***Changes in tax laws and unfavorable resolution of tax contingencies could adversely affect our tax expense.***

The Company's future effective tax rates could be adversely affected by changes in tax laws, both domestically and internationally. From time to time, the United States Congress and foreign, state and local governments consider legislation that could increase the Company's effective tax rates. If changes to applicable tax laws are enacted, our results of operations could be negatively impacted. The Company's tax returns and positions (including positions

regarding jurisdictional authority of foreign governments to impose tax) are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense, thereby negatively impacting the Company's results of operations.

**Item 1B. Unresolved Staff Comments.**

None.

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**Item 2. Properties.**

Our principal executive offices consist of approximately 9,300 square feet of leased space in a modern office building in Jericho, NY. The lease commenced on January 1, 2010, has a ten (10) year term, with a five (5) year renewal right. We also own a regional office building consisting of approximately 9,500 square feet in Fort Lauderdale, Florida. We currently own one restaurant property consisting of a 2,650 square foot Nathan's restaurant at 86th Street in Brooklyn, NY, located on a 25,000 square foot lot.

At March 30, 2014, other Company-owned restaurants that were operating were located in leased space with terms expiring as shown in the following table:

Nathan's Restaurants	Location	Current Lease Expiration Date	Approximate Square Footage
Coney Island	Brooklyn, NY	December 2027	10,000
Coney Island Boardwalk	Brooklyn, NY	November 2019 (a)	3,800
Long Beach Road	Oceanside, NY	May 2021 (b)	7,300
Central Park Avenue	Yonkers, NY	December 2023	3,500

(a) Seasonal satellite location.

On April 15, 2014, Nathan's entered into agreements to terminate its current lease and relocate to a smaller location within the immediate area in Oceanside, NY. These agreements are contingent upon the landlord obtaining the necessary permit and variances from the building department. We expect to operate at the current location through November 2014, and are seeking to open in the new location in March 2015.

Leases for Nathan's restaurants typically provide for a base rent plus real estate taxes, insurance and other expenses and, in some cases, provide for an additional percentage rent based on the restaurants' revenues.

At March 30, 2014, in addition to the leases listed above, we were the sub-lessor of three properties to franchisees which are located within the metropolitan New York area.

Aggregate rental expense, net of sublease income, under all current leases amounted to \$1,391,000 in fiscal 2014.

**Item 3. Legal Proceedings.**

We and our 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 our 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 our results of operations for the period in which the ruling occurs.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Common Stock Prices**

Our common stock is quoted on the NASDAQ Global Market (“Nasdaq”) under the symbol “NATH.” The following table sets forth the high and low closing sales prices per share for the periods indicated:

	High	Low
Fiscal year ended March 30, 2014		
First quarter	\$54.00	\$42.45
Second quarter	61.13	48.99
Third quarter	53.95	48.23
Fourth quarter	51.09	47.61
Fiscal year ended March 31, 2013		
First quarter	\$28.96	\$21.00
Second quarter	33.48	27.45
Third quarter	34.00	27.71
Fourth quarter	42.38	33.22

At June 6, 2014, the closing price per share for our common stock, as reported by Nasdaq, was \$49.59.

## Performance Graph

The graph below represents the Company's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the S&P Restaurant Index. The graph tracks the performance of a \$100 investment in our common stock and in each of our indexes (with the reinvestment of all dividends).

**Dividend Policy**

We have not declared or paid a cash dividend on our common stock since our initial public offering and do not anticipate that we will pay any cash dividends in the foreseeable future. It is our Board of Directors' policy to retain all available funds to finance the development and growth of our business and to purchase stock pursuant to our stock buyback programs. The payment of any cash dividends in the future will be dependent upon our earnings and financial requirements.

## **Shareholders**

As of June 6, 2014, we had approximately 603 shareholders of record, excluding shareholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers.

## **Issuer Purchases of Equity Securities**

For the thirteen weeks and fiscal year ended March 30, 2014, the Company repurchased 25,085 shares at a cost of \$1,224,000 and 30,463 shares at a cost of \$1,486,000, respectively. Since the commencement of the Company's stock buyback program in September 2001 through March 30, 2014, Nathan's has purchased a total of 4,610,026 shares of common stock at a cost of approximately \$54,884,000 under all of its stock repurchase programs and the modified dutch tender offer, which includes the shares purchased during the fiscal year ended March 30, 2014.



On February 1, 2011, the Company's Board of Directors authorized an increase to the sixth stock repurchase plan for the purchase of up to 800,000 shares of its common stock on behalf of the Company; as of March 30, 2014, Nathan's has repurchased 511,067 shares at a cost of \$11,279,000 under the sixth stock repurchase plan. 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.

### Issuer Purchases of Equity Securities

Period (A)	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans (B)
December 30, 2013 - January 26, 2014	-	\$-	-	314,018
January 27, 2014 - February 23, 2014	12,945	\$48.63	12,945	301,073
February 24, 2014 -March 30, 2014	12,140	\$48.94	12,140	288,933
Total	25,085	\$48.78	25,085	288,933

A) Represents the Company's fiscal periods during the fourth quarter ended March 30, 2014.

At March 30, 2014, there were 288,933 shares remaining to be repurchased pursuant to the sixth stock repurchase B) plan that was authorized on November 6, 2009, and amended on, February 1, 2011 for up to 800,000 shares. The plan does not have a set expiration date.

**Item 6. Selected Financial Data.**

	<b>Fiscal years ended (1)</b>				
	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012	March 27, 2011	March 28, 2010
	(In thousands, except per share amounts)				
<b>Statement of Earnings Data:</b>					
<b>Revenues:</b>					
Sales (3)	<b>\$65,521</b>	\$56,656	\$52,369	\$44,634	\$38,685
Franchise fees and royalties	<b>5,718</b>	5,842	5,646	5,058	4,832
License royalties	<b>8,513</b>	8,571	7,526	6,718	6,378
Insurance gain	<b>2,774</b>	-	-	-	-
Interest and other income, net	<b>401</b>	474	681	845	981
<b>Total revenues</b>	<b>82,927</b>	71,543	66,222	57,255	50,876
<b>Costs and Expenses:</b>					
Cost of sales	<b>53,072</b>	44,874	42,106	34,567	28,513
Restaurant operating expenses	<b>3,142</b>	2,700	3,115	3,092	3,285
Depreciation and amortization	<b>1,157</b>	940	965	915	843
General and administrative expenses	<b>11,460</b>	10,437	9,552	10,125	9,708
Litigation accrual	-	-	-	4,910	-
Impairment charge on note receivable	-	-	-	263	250
Impairment charge on long-term investment	<b>400</b>	-	-	-	-
Interest expense	<b>135</b>	453	477	63	-
Recovery of property taxes	-	-	-	-	(13 )
<b>Total costs and expenses</b>	<b>69,366</b>	59,404	56,215	53,935	42,586
Income from continuing operations before provision for income taxes	<b>13,561</b>	12,139	10,007	3,320	8,290
Income tax expense	<b>5,234</b>	4,671	3,849	1,107	2,721
<b>Net income (3)</b>	<b>\$8,327</b>	\$7,468	\$6,158	\$2,213	\$5,569
<b>Basic income per share:</b>					
Net income (3)	<b>\$1.87</b>	\$1.70	\$1.26	\$0.41	\$1.00
<b>Diluted income per share:</b>					
Net income (3)	<b>\$1.81</b>	\$1.63	\$1.22	\$0.40	\$0.97
<b>Dividends</b>					
Weighted average shares used in computing net income per share	-	-	-	-	-
Basic	<b>4,450</b>	4,400	4,906	5,403	5,563
Diluted	<b>4,605</b>	4,588	5,049	5,504	5,716
<b>Balance Sheet Data at End of Fiscal Year:</b>					
Working capital	<b>\$35,378</b>	\$27,525	\$21,989	\$31,454	\$36,668
Total assets	<b>\$56,135</b>	\$49,662	\$44,520	\$52,958	\$53,374
Stockholders' equity	<b>\$43,897</b>	\$34,148	\$28,837	\$38,078	\$44,312

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Selected Restaurant Operating Data:

Company-owned restaurant sales (3)	<b>\$13,231</b>	\$13,403	\$13,209	\$13,007	\$12,377
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Number of Units Open at End of Fiscal Year:

Company-owned restaurants (4)	<b>5</b>	5	5	5	5
Franchised	<b>324</b>	303	299	264	246

## Notes to Selected Financial Data

Our fiscal year ends on the last Sunday in March, which results in a 52- or 53-week year. The fiscal years ended (1) March 30, 2014, March 25, 2012, March 27, 2011 and March 28, 2010 were each on the basis of a 52-week reporting period whereas the fiscal year ended March 31, 2013 was on the basis of 53-week reporting period.

See Notes A, B and L of the Consolidated Financial Statements for the fiscal year ended March 30, 2014, for any (2) accounting changes, business combinations or dispositions of business operations that materially affect the comparability of the information reflected in this Item 6.

During the fiscal years ended March 30, 2014 and March 31, 2013, the Company-owned restaurant sales were (3) negatively impacted due to temporary closings of the Coney Island restaurant due to Superstorm Sandy since October 29, 2012 and the Yonkers restaurant since November 25, 2012 for renovation.

(4) Included the Coney Island and Yonkers restaurants that were being re-developed on March 31, 2013.

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

### **Introduction**

On October 29, 2012, the Northeastern United States was hit by Superstorm Sandy which caused significant damage to our Flagship Coney Island location closing the restaurant for repair from October 29, 2012 until May 20, 2013.

During the first quarter of fiscal 2014, Nathan's settled the property claim with its insurance carriers and received approximately \$3.4 million, net of fees, and used these proceeds towards the rebuilding of the restaurant. In April 2014, Nathan's settled the business interruption claim with the insurance carrier and received approximately \$718,000, net of fees.

Additionally, on November 25, 2012, we closed the Company-owned restaurant in Yonkers, New York, as a part of a redevelopment of the property into a strip center, which includes a new Nathan's Company-owned restaurant that re-opened on November 18, 2013.

These two events significantly impacted our results of operations and the comparability of restaurant operations during the fiscal 2014 and 2013 periods reported.

As a result of the above, Nathan's Management Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K will discuss significant attributes of the closed periods on Company-owned restaurant operations.

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 began in 1978 by selling packaged hot dogs and other meat products to retail customers through supermarkets or grocery-type retailers for off-site consumption. During fiscal 1998, we introduced our Branded Product Program, which currently 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. During fiscal 2008, we launched our Branded Menu Program, which 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, franchising the Nathan's restaurant concept (including under the Branded Menu Program) and licensing agreements for the sale of Nathan's products within supermarkets and club stores, the manufacture of certain proprietary spices and the sale of Nathan's products directly to other foodservice operators.

The following summary reflects the franchise openings and closings of the Nathan's franchise system for the fiscal years ended March 30, 2014, March 31, 2013, March 25, 2012, March 27, 2011 and March 28, 2010.

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012	March 27, 2011	March 28, 2010
Franchised restaurants operating at the beginning of the period	<b>303</b>	299	264	246	249
Franchised restaurants opened during the period	<b>56</b>	40	67	40	33
Franchised restaurants closed during the period	<b>(35 )</b>	(36 )	(32 )	(22 )	(36 )
Franchised restaurants operating at the end of the period	<b>324</b>	303	299	264	246

At March 30, 2014, our franchise system consisted of 324 Nathan's franchised units located in 28 states, the Cayman Islands, and eight foreign countries. We also operate five Company-owned Nathan's units, including one seasonal location, within the New York metropolitan area.

As described in Risk Factors and other sections in this Annual Report on Form 10-K for the year ended March 30, 2014, our future results could be impacted by many developments. In March 2014, John Morrell & Co., a subsidiary of Smithfield Foods, Inc. became Nathan's exclusive licensee to manufacture and sell hot dogs, sausage and corned beef at retail. Our future operating results could be favorably impacted by the terms and conditions of our agreement with John Morrell & Co. as compared to the terms and conditions of our agreement with SMG which expired on March 1, 2014, although there can be no assurance thereof. There are also certain risks associated with engaging John Morrell & Co. as exclusive licensee including whether (i) we can maintain or improve the quality and consistency of our products that is expected by our customers (ii) John Morrell & Co. will have a sufficient supply of products available for our customers on a timely basis and (iii) John Morrell & Co. will be able to provide sales and marketing efforts at least as comparable to SMG.

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.

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

Our consolidated financial statements and the notes to our consolidated financial statements contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities. We believe the following critical accounting policies involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts.

***Revenue Recognition***

Sales by Company-owned restaurants, which are typically paid in cash by the customer, are recognized at the point of sale. Sales are presented net of sales tax.

In connection with its franchising operations, Nathan's receives initial franchise fees, area development fees, royalties, and in certain cases, revenue from sub-leasing restaurant properties to franchisees.

Franchise and area development fees, which are typically received prior to completion of the revenue recognition process, are recorded as deferred revenue. Initial franchise fees, which are non-refundable, are recognized as income when substantially all services to be performed by Nathan's and conditions relating to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations. The following services are typically provided by Nathan's prior to the opening of a franchised restaurant:

Approval of all site selections to be developed.

Provision of architectural plans suitable for restaurants to be developed.

Assistance in establishing building design specifications, reviewing construction compliance and equipping the restaurant.

Provision of appropriate menus to coordinate with the restaurant design and location to be developed.

Provision of management training for the new franchisee and selected staff.

Assistance with the initial operations and marketing of restaurants being developed.

Development fees are nonrefundable and the related agreements require the franchisee to open a specified number of restaurants in the development area within a specified time period or the agreements may be canceled by the Company. Revenue from development agreements is deferred and shall be recognized, with an appropriate provision for estimated uncollectable amounts, when all material services or conditions to the sale have been substantially performed by the franchisor. If substantial obligations under the development agreement are not dependent on the number of individual franchise locations to be opened, substantial performance shall be determined using the same criteria applicable to an individual franchise, which is generally the opening of the first location pursuant to the development agreement. If substantial performance is dependent on the number of locations, then the development fee is deferred and recognized ratably over the term of the agreement, as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open, or at the time the development agreement is effectively canceled.

Nathan's recognizes franchise royalties on a monthly basis, which are generally based upon a percentage of sales made by Nathan's franchisees, when they are earned and deemed collectible. Franchise fees and royalties that are not deemed to be collectible are not recognized as revenue until paid by the franchisee, or until collectability is deemed to be reasonably assured.

Nathan's recognizes revenue from its Branded Menu Program either upon its sale of hot dogs or royalty income when it has been determined that other qualifying products have been sold by the manufacturer to Nathan's Branded Menu Program franchisees.

Nathan's recognizes revenue from the Branded Product Program upon delivery to Nathan's customers via third party common carrier to Nathan's customers. Rebates to customers are recorded as a reduction to sales.



Revenue from sub-leasing properties is recognized as income as the revenue is earned and becomes receivable and deemed collectible. Sub-lease rental income is presented net of associated lease costs in the consolidated statements of earnings.

Nathan's recognizes revenue from royalties on the licensing of the use of its intellectual property in connection with certain products produced and sold by outside vendors. The use of the Nathan's intellectual property must be approved by Nathan's prior to each specific application to ensure proper quality and project a consistent image. Revenue from license royalties is recognized on a monthly basis when it is earned and deemed collectible.

In the normal course of business, we extend credit to franchisees and licensees for the payment of ongoing royalties and to trade customers of our Branded Product Program. Accounts and other receivables, net, as shown on our consolidated balance sheets are net of allowances for doubtful accounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the financial statements, assessment of collectibility based upon historical trends and an evaluation of the impact of current and projected economic conditions. In the event that the collectibility of a receivable at the date of the transaction is doubtful, the associated revenue is not recorded until the facts and circumstances change in accordance with the applicable accounting standards. The Company writes off accounts receivable when they are deemed uncollectible.

#### ***Impairment of Goodwill and Other Intangible Assets***

Goodwill and intangible assets are deemed to have indefinite lives, and accordingly, are not amortized, but are evaluated annually (or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable) for impairment. The most significant assumptions, which are used in this test, are estimates of future cash flows. We typically use the same assumptions for this test as we use in the development of our business plans. If these assumptions differ significantly from actual results, impairment charges may be required in the future. We conducted our annual impairment tests and no goodwill or other intangible assets were determined to be impaired during the fiscal years ended March 30, 2014, March 31, 2013 or March 25, 2012.

### ***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In instances where impairment is determined to exist, the Company writes down the asset to its fair value based on the present value of estimated future cash flows.

Impairment losses are recorded on long-lived assets on a restaurant-by-restaurant basis whenever impairment factors are determined to be present. The Company considers a history of restaurant operating losses to be its primary indicator of potential impairment for individual restaurant locations. As result of Superstorm Sandy, our Coney Island restaurant sustained significant damage and was considered temporarily impaired for purposes of this analysis. The restaurant was fully repaired and re-opened on May 20, 2013. No other impairment charges on long-lived assets were recorded during the fiscal years ended March 30, 2014, March 31, 2013 or March 25, 2012.

### ***Impairment of Long-Term Investment***

We make judgments regarding the future realizability of this investment based upon the financial information provided to us by the investment's management. We typically rely on management's assumptions, of future revenues and cash flows based upon the annual business plans presented. If these assumptions differ significantly from actual results, we consider whether indicators of impairment exist. If an impairment indicator exists, management evaluates the fair value of its investment to determine if an, other than temporary impairment in value has occurred. We have performed our evaluation of whether indicators of impairment existed, and determined that another-than-temporary impairment has occurred and recorded an impairment charge of \$400,000 on this investment during the fifty-two week period ended March 30, 2014. We did not recognize any impairment on this investment during the fifty-three week period ended March 31, 2013.

### ***Stock-Based Compensation***

As discussed in Note K of the Notes to Consolidated Financial Statements, we have one active share-based compensation plan that provides stock options and restricted stock awards for certain employees and non-employee directors to acquire shares of our common stock. We consider the following factors in determining the value of stock-based compensation:

- (a) expected option term based upon expected termination behavior;
- (b) volatility based upon historical price changes of the Company's common stock over a period equal to the expected life of the option;
- (c) expected dividend yield; and
- (d) risk free interest rate on date of grant.

### ***Income Taxes***

The Company's current provision for income taxes is based upon its estimated taxable income in each of the jurisdictions in which it operates, after considering the impact on taxable income of temporary differences resulting from different treatment of items for tax and financial reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and any operating loss or tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible. Should management determine that it is more likely than not that some portion of the deferred tax assets will not be realized, a valuation allowance against the deferred tax assets would be established in the period such determination was made.

### ***Uncertain Tax Positions***

Financial Accounting Standards establish guidance for the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Financial Accounting Standards also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements. (See Note J of the Notes to Consolidated Financial Statements.)

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

In April 2014, the FASB issued new accounting guidance changing the criteria for reporting discontinued operations. The revised definition of a discontinued operation includes those components of an entity or a group of components of an entity representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The guidance eliminates the current requirement to assess continuing cash flow and continuing involvement with the disposal group. The revised definition also includes a business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale. A disposal meeting the new definition is required to be reported as discontinued operations when the component of an entity or group of components of an entity meets the held for sale criteria, is actually disposed of by sales, or is disposed of through means other than a sale. The guidance is effective for Nathan's for annual periods beginning on or after December 15, 2014 and interim periods within those years, which for Nathan's will be the first quarter fiscal 2016 beginning March 30, 2015. Early adoption is permitted for disposals that have not been previously reported in the financial statements. Nathan's does not expect the adoption of this new guidance to have a material impact on the results of operations or financial position.

In July 2012, the FASB issued new accounting guidance on testing indefinite-lived intangible assets for impairment. The new guidance provides the entity with the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived asset is less than its carrying value. If it is not, then no further analysis is required otherwise then the previously required quantitative testing is required. Nathan's adopted the new guidance beginning with its first quarter of fiscal of 2014. The adoption of this new guidance did not have a material impact on the results of operations or financial position.

There are no other recently issued accounting pronouncements that have not yet been adopted that are expected, when adopted, to have a material impact on the consolidated financial statements or notes thereto.

**Results of Operations**

Fiscal year ended March 30, 2014 compared to fiscal year ended March 31, 2013

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*Revenues*

Total sales increased by 15.6% to \$65,521,000 for the fifty-two weeks ended March 30, 2014 (“fiscal 2014”) as compared to \$56,656,000 for the fifty-three weeks ended March 31, 2013 (“fiscal 2013”). Foodservice sales from the Branded Product Program increased by 20.0% to \$51,877,000 for fiscal 2014 as compared to sales of \$43,214,000 in fiscal 2013. This increase was primarily attributable to a 15.7% increase in the volume of products ordered, the impact of a December price increase as well as a shift in the sales mix of products sold as compared to fiscal 2013. We estimate that the additional week of operations during fiscal 2013 represented Branded Product sales of approximately \$828,000. Total Company-owned restaurant sales decreased by \$172,000 to \$13,231,000 during fiscal 2014 compared to \$13,403,000 during fiscal 2013. Restaurant sales during the additional week of fiscal 2013 were approximately \$70,000. Our Coney Island restaurant was closed during April and May 2013 to complete the restoration after Superstorm Sandy losing eight (8) weeks of the spring season during the fiscal 2014 period, compared to the post-Sandy closure of twenty-two (22) weeks from November 2012 through March 2013 when sales at the restaurant are lower. We also temporarily closed our Yonkers restaurant for redevelopment from November 2012 until November 2013. We estimate that the negative sales impact of both restaurants attributable to the closed periods was approximately \$2,087,000. This decline was partly offset by sales during fiscal 2014 for the period of time when the restaurants were closed during fiscal 2013. We had higher sales of approximately \$876,000 or 12.1% at our two Coney Island locations for the comparative weeks of operations during fiscal 2014 as compared to fiscal 2013. During fiscal 2014, other sales, primarily to Wal-mart, were approximately \$374,000 higher than fiscal 2013.

Franchise fees and royalties were \$5,718,000 in fiscal 2014 as compared to \$5,842,000 in fiscal 2013. Total royalties were \$4,855,000 in fiscal 2014 as compared to \$4,990,000 in fiscal 2013. Royalties earned under the Branded Menu Program were \$1,011,000 in fiscal 2014 as compared to \$943,000 in fiscal 2013 due principally to the additional units in operation. 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 \$3,844,000 in fiscal 2014 as compared to \$4,047,000 in fiscal 2013. Franchise restaurant sales decreased to \$85,850,000 in fiscal 2014 as compared to \$90,401,000 in fiscal 2013 primarily due to the impact of closed restaurants. Comparable domestic franchise sales (consisting of 98 Nathan’s outlets, operating for 15 months prior to the beginning of the fiscal year, excluding sales under the Branded Menu Program) were \$60,228,000 in fiscal 2014 as compared to \$61,989,000 in fiscal 2013, a decrease of 2.8%. Including the effect of the additional week of operations during fiscal 2013, franchise sales within our entertainment venues and malls declined by approximately 5.8% and 5.2%, respectively, compared to the prior period.

At March 30, 2014, 324 domestic and international franchised or Branded Menu Program franchise outlets were operating as compared to 303 domestic and international franchised or Branded Menu Program franchise outlets at March 31, 2013. Total franchise fee income was \$863,000 in fiscal 2014, including \$288,000 of termination or cancellation fees compared to \$852,000 in fiscal 2013, including \$190,000 of cancellation fees. Domestic franchise fee income was \$370,000 in fiscal 2014 compared to \$324,000 in fiscal 2013. International franchise fee income was \$205,000 in fiscal 2014, compared to \$338,000 during fiscal 2013. During fiscal 2014, 56 new franchised outlets opened, including 34 locations in Russia and nine Branded Menu Program outlets, including our first Arthur Treacher’s unit. During fiscal 2013, 40 new franchised outlets opened, including our first two mobile trucks, our first location in Turkey, our first location in Mexico City, our sixth restaurant in the Dominican Republic and 20 Branded

Menu Program outlets, including ten units operated by K-mart.

License royalties were \$8,513,000 in fiscal 2014 as compared to \$8,571,000 in fiscal 2013. Total royalties earned on sales of hot dogs from our retail and foodservice license agreements were \$6,742,000 in fiscal 2014 as compared to \$6,948,000 in fiscal 2013. In March 2014, John Morrell & Co. became Nathan's exclusive licensee to manufacture and sell branded hot dog, sausage and corned beef products at retail. Royalties earned during 11 months of the SMG contract, primarily from the retail sale of hot dogs, were \$4,600,000 during fiscal 2014 as compared to \$5,506,000 during 12 months of fiscal 2013. During March 2014, we earned royalties of \$548,000 from approximately two weeks of sales by John Morrell & Co. The decline in royalties from SMG is due primarily to the different periods of the contract and reduced production by SMG, on which our royalties are based as the contract was expiring. Royalties earned from John Morrell & Co. pursuant to our prior license agreement, substantially from sales of hot dogs to Sam's Club, were \$1,594,000 during fiscal 2014 as compared to \$1,442,000 during fiscal 2013. This increase is due primarily to the effect of a temporary royalty concession on sales to Sam's Club during fiscal 2013 partly offset by reduced sales to foodservice. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$148,000, during fiscal 2014, as compared to fiscal 2013.

Interest income was \$325,000 in fiscal 2014 as compared to \$392,000 in fiscal 2013, primarily due to lower interest income earned on marketable securities. As additional marketable securities mature or are called by the issuer and we are unable to earn similar returns upon reinvestment, we anticipate lower investment income in the future.

Insurance gain of \$2,774,000 during fiscal 2014 represents the difference between insurance proceeds received and the historical net book value of assets destroyed at our Flagship Coney Island restaurant and demolition costs resulting from Superstorm Sandy in addition to the settlement of the business interruption claim (See note L.4).

Other income, net of \$76,000 in fiscal 2014 as compared to \$82,000 in fiscal 2013 relates primarily to a sublease of a non-franchised restaurant.

### *Costs and Expenses*

Overall, our cost of sales increased by \$8,198,000 to \$53,072,000 in fiscal 2014 as compared to \$44,874,000 in fiscal 2013. Our gross profit (representing the difference between sales and cost of sales) was \$12,449,000 or 19.0% of sales during fiscal 2014 as compared to \$11,782,000 or 20.8% of sales during fiscal 2013. The margin decline was primarily due to the impact of a higher average cost per pound of hot dogs for our Branded Product Program during fiscal 2014 and the restaurant opening costs of the Coney Island and Yonkers restaurants.

Cost of sales in the Branded Product Program increased by approximately \$7,848,000 during fiscal 2014 as compared to fiscal 2013, primarily as a result of the higher sales volume in addition to the approximately 6.7% increased average cost per pound of our hot dogs. During fiscal 2014, the market cost of our hot dogs was approximately 7.5% higher than during fiscal 2013 due primarily to an increase in the beef trimmings markets during August and September 2013. During fiscal 2014, our purchase commitments yielded savings of approximately \$198,000. During fiscal 2013, our purchase commitments to acquire hot dogs increased cost by approximately \$39,000 due primarily to the unexpected decline in the market cost of one of the beef components during fiscal 2013. During fiscal 2014, approximately 13.4% of our product was purchased pursuant to our purchase commitments as compared to approximately 26.7% during fiscal 2013. The purchase commitments lowered our costs by approximately \$0.011 per pound during fiscal 2014 and increased our costs by approximately \$0.002 per pound during fiscal 2013. We have recently been forced to pass on the recent cost increases through price increases, and continue to monitor the beef markets. 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 fiscal 2014 was \$7,574,000 or 57.2% of restaurant sales, as compared to \$7,524,000 or 56.1% of restaurant sales in fiscal 2013 due partly to lower sales at our Company-owned restaurants and the higher costs incurred in re-opening the Coney Island and Yonkers restaurants. On December 31, 2013, the New York minimum wage increased to \$8.00 which amounted to a 4.6% average salary increase for our employees that were affected. We estimate that this increase in minimum wage could increase our restaurant cost of sales by approximately 0.5% of restaurant sales if prices remain the same. 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, that work more than 80 hours for the employer. Nathan's operates three restaurants that will be affected by this new legislation and is currently evaluating the potential impact on its results of operations.

Restaurant operating expenses were \$3,142,000 in fiscal 2014 as compared to \$2,700,000 in fiscal 2013. The increase in restaurant operating costs results primarily from the different number of months that the Coney Island restaurant operated in the two fiscal periods. During fiscal 2014, the Coney Island restaurant operated for approximately 10 months as compared to operating for approximately 7 months during fiscal 2013. Nathan's ongoing occupancy and insurance costs at the Coney Island restaurant subsequent to the storm were recovered as part of our business interruption claim. We incurred higher percentage rent on the increased sales at the Boardwalk location. In connection with our October 2013 insurance renewal, we incurred a significant increase in insurance costs, primarily property



insurance, due to the impact of Superstorm Sandy on the insurance marketplace. We incurred lower restaurant operating expenses at our Yonkers restaurant which operated for approximately 4 months during fiscal 2014 as compared to approximately 8 months during fiscal 2013. Although utility costs were comparable during fiscal 2014 and fiscal 2013, we continue to be concerned about the volatile market conditions for oil and natural gas.

Depreciation and amortization was \$1,157,000 in fiscal 2014 as compared to \$940,000 in fiscal 2013. This increase is primarily attributable to the increased depreciation at the Coney Island and Yonkers restaurants. Since re-opening our Coney Island restaurant, we have incurred higher depreciation of approximately \$191,000. Since re-opening our Yonkers restaurant, we have incurred higher depreciation of approximately \$31,000 and expect to incur approximately \$136,000 of depreciation per annum in connection with the redevelopment of the Yonkers restaurant.

General and administrative expenses increased by \$1,023,000 or 9.8% to \$11,460,000 in fiscal 2014 as compared to \$10,437,000 in fiscal 2013. The increase in general and administrative expenses was primarily due to increased compensation costs, including stock-based compensation and payroll related taxes of \$587,000, professional fees of \$115,000, marketing and travel expense of \$112,000 and manager training expenses of \$37,000 in connection with the re-opening of our Coney Island and Yonkers restaurants.

Interest expense of \$135,000 in fiscal 2014 and \$453,000 in fiscal 2013 represents accrued interest in connection with Nathan's appeal of the SMG damages award calculated at the New York State statutory rate of 9% per annum. On March 31, 2011, Nathan's was required to enter into both a security agreement and a blocked deposit account control agreement and to deposit approximately \$4,910,000 into the account and agree to deposit additional amounts monthly in an amount equal to the post-judgment interest. On July 24, 2013, we satisfied the judgment, in full settlement of this matter and no additional interest will accrue on this judgment.

The Company recognized an, other-than-temporary impairment charge on its long-term investment of \$400,000 in fiscal 2014 based on management's assessment of the future recoverability of the investment.

### **Provision for Income Taxes**

In fiscal 2014, the income tax provision was \$5,234,000 or 38.6% of earnings before income taxes as compared to \$4,671,000 or 38.5% of earnings before income taxes in fiscal 2013. Nathan's effective tax rate was reduced by 0.9% during fiscal 2014 and reduced by 1.3% during fiscal 2013, due to the differing effects of tax-exempt interest income. During fiscal 2014, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$67,000, which lowered the effective tax rate by 0.5%. Additionally, during fiscal 2013, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$38,000, which lowered the effective tax rate by 0.3%. Nathan's effective tax rates without these adjustments would have been 40.0% for fiscal 2014 and 40.1% for fiscal 2013. Nathan's estimates that its unrecognized tax benefits, including the related accrued interest and penalties could be reduced by up to \$124,000 during fiscal 2015.

### **Fiscal year ended March 31, 2013 compared to fiscal year ended March 25, 2012**

#### **Revenues**

Total sales increased by 8.2% to \$56,656,000 for the fifty-three weeks ended March 31, 2013 ("fiscal 2013") as compared to \$52,369,000 for the fifty-two weeks ended March 25, 2012 ("fiscal 2012"). Foodservice sales from the Branded Product and Branded Menu Programs increased by 12.2% to \$43,214,000 for fiscal 2013 as compared to sales of \$38,506,000 in fiscal 2012. This increase was primarily attributable to a 10.4% increase in the volume of products ordered and the impact of price increases that took effect during the fiscal 2013 and fiscal 2012 periods. We estimate that the additional week of operations during fiscal 2013 represented approximately \$828,000 of the sales increase. Total Company-owned restaurant sales, comprised of five Nathan's restaurants in both periods (including one

seasonal restaurant), increased by \$194,000 to \$13,403,000 during fiscal 2013 compared to \$13,209,000 during fiscal 2012. This increase was primarily attributed to the increased sales at our relocated and expanded seasonal Boardwalk restaurant in Coney Island that opened in April 2012. Weather conditions had generally been favorable throughout the first twenty-six weeks of fiscal 2013 as compared to the first twenty-six weeks of the fiscal 2012 period. Sales since the third quarter fiscal 2013 were negatively affected due to the closures of our flagship Coney Island and Oceanside locations caused by Superstorm Sandy and the closure of our Yonkers, New York, restaurant for redevelopment. Based on our fiscal 2012 results, we estimate that, compared to fiscal 2012, the closures of our Coney Island and Oceanside restaurants due to the storm reduced sales by approximately \$1,095,000 and \$66,000, respectively. Additionally, we estimate that the closing of our Yonkers restaurant for redevelopment in November 2012, further reduced sales by approximately \$632,000 as compared to fiscal 2012. During fiscal 2012, we were forced to temporarily close all of our restaurants during tropical storm Irene for the weekend of August 27, 2011 and experienced much more rain than usual, particularly during weekends, and a cold Labor Day weekend which we believe further decreased sales particularly at our Coney Island locations. During fiscal 2013, other sales were approximately \$615,000 lower than fiscal 2012 primarily because Nathan's terminated our agreement with the QVC television network in March 2012.

Franchise fees and royalties were \$5,842,000 in fiscal 2013 as compared to \$5,646,000 in fiscal 2012. Total royalties were \$4,990,000 in fiscal 2013 as compared to \$4,726,000 in fiscal 2012. Royalties earned under the Branded Menu program were \$943,000 in fiscal 2013 as compared to \$768,000 in fiscal 2012 due principally to the additional units in operation. 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 \$4,047,000 in fiscal 2013 as compared to \$3,958,000 in fiscal 2012. Franchise restaurant sales were \$90,401,000 in fiscal 2013 as compared to \$90,022,000 in fiscal 2012. We estimate that the additional week of operations during fiscal 2013 resulted in \$939,000 of additional total franchise sales or royalties of approximately \$48,000. We believe that fiscal 2013 sales were negatively impacted by approximately \$510,000 attributable to the franchised restaurants in the Northeast that were closed due to Superstorm Sandy. One of these restaurants affected remains closed. Comparable domestic franchise sales (consisting of 117 Nathan's outlets, operating for 15 months prior to the beginning of the fiscal year, excluding sales under the Branded Menu Program) were \$58,092,000 in fiscal 2013 as compared to \$59,180,000 in fiscal 2012, a decrease of 1.8%. Excluding the effect of the additional week of operations, franchise sales within our entertainment venues declined by approximately 4.8% compared to the prior period, including significant sales declines at two franchised locations that have been negatively affected by adjacent long term construction projects. During the second quarter fiscal 2012, most of our franchised locations in the Northeast were also negatively affected by tropical storm Irene.

At March 31, 2013, 303 domestic and international franchised or Branded Menu Program franchise outlets were operating as compared to 299 domestic and international franchised or Branded Menu Program franchise outlets at March 25, 2012. Total franchise fee income was \$852,000 in fiscal 2013, including cancellation fees of \$190,000, compared to \$920,000 in fiscal 2012, including cancellation fees of \$74,000. Domestic franchise fee income was \$324,000 in fiscal 2013 compared to \$547,000 in fiscal 2012, primarily due to opening fewer Branded Menu Program outlets within K-marts. International franchise fee income was \$338,000 in fiscal 2013, compared to \$299,000 during fiscal 2012. During fiscal 2013, 40 new franchised outlets opened, including our first two mobile trucks, our first location in Turkey, our first location in Mexico City, our sixth restaurant in the Dominican Republic and twenty Branded Menu Program outlets, including ten units operated by K-mart. During fiscal 2012, 67 new franchised outlets opened, including two locations in Canada, China, Jamaica, Kuwait and the Dominican Republic and 43 Branded Menu Program outlets, including 28 units operated by Kmart.

License royalties were \$8,571,000 in fiscal 2013 as compared to \$7,526,000 in fiscal 2012. We do not believe that the additional week of operations had a significant impact on royalties as our licensees continued to report based upon their fiscal reporting periods. Total royalties earned on sales of hot dogs from our retail and foodservice license agreements increased 15.1% to \$6,948,000 from \$6,037,000 primarily due to higher sales by SMG and higher royalties from a change in packaging on certain products sold by SMG in fiscal 2013. Royalties earned from SMG, primarily from the retail sale of hot dogs, were \$5,506,000 during fiscal 2013 as compared to \$4,503,000 during fiscal 2012. Royalties earned from our foodservice licensee, substantially from sales of hot dogs to Sam's Club and Kroger's, were \$1,442,000 during fiscal 2013 as compared to \$1,534,000 during fiscal 2012. This decrease is due primarily to a temporary royalty concession for the period April 2012 through July 2012, on sales to Sam's Club and lower sales volume to Kroger's. During fiscal 2013, we earned incremental royalties of \$114,000 from a new agreement for the sale of salty snacks. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products were \$1,509,000, during fiscal 2013, as compared to \$1,489,000 during fiscal 2012.

Interest income was \$392,000 in fiscal 2013 as compared to \$573,000 in fiscal 2012, primarily due to lower interest income of approximately \$151,000 earned on marketable securities and lower interest earned on the Miami Subs note of approximately \$30,000. As additional marketable securities mature or are called by the issuer and we are unable to earn similar returns upon reinvestment, we would anticipate lower investment income in the future. On June 29, 2011, we completed the sale of the Miami Subs note receivable and no longer earned interest income of 8.5% on this note receivable.

Other income was \$82,000 in fiscal 2013 as compared to \$108,000 in fiscal 2012. This decrease is due primarily to the impact of a one-time gain of \$125,000 in fiscal 2012 which was partly offset by an increase due to a renegotiated sublease of a non-franchised restaurant in fiscal 2013. In November 2011, Nathan's received \$125,000 in full satisfaction of Nathan's rights under the irrevocable direction entered into in connection with its sale of Miami Subs.

### **Costs and Expenses**

Overall, our cost of sales increased by \$2,768,000 to \$44,874,000 in fiscal 2013 as compared to \$42,106,000 in fiscal 2012. Our gross profit (representing the difference between sales and cost of sales) was \$11,782,000 or 20.8% of sales during fiscal 2013 as compared to \$10,263,000 or 19.6% of sales during fiscal 2012. The margin improvement was primarily due to the impact of sales price increases that have been previously implemented to offset the higher cost of hot dogs for our Branded Product Program.

Cost of sales in the Branded Product Program increased by approximately \$3,592,000 during fiscal 2013 as compared to fiscal 2012, primarily as a result of the higher sales volume and the approximately 1.0% increased cost of our hot dogs. During fiscal 2013, the market price of hot dogs was approximately 0.1% lower than during fiscal 2012. During fiscal 2013, our purchase commitments increased cost by approximately \$39,000. During fiscal 2012, our purchase commitments to acquire hot dogs yielded savings of approximately \$275,000. This difference is due primarily to the unexpected decline in the cost of one of the beef components in the first quarter fiscal 2013, the result of which did not yield the anticipated savings but raised costs by approximately \$142,000 as compared to market prices. During fiscal 2013, approximately 73.3% of our product was purchased at prevailing market prices as compared to approximately 90.0% during fiscal 2012. The purchase commitments increased our costs by approximately \$0.002 per pound during fiscal 2013 and reduced our costs by approximately \$0.019 per pound during fiscal 2012. The cost of beef could further increase due to the record high corn prices as a result of the drought in the Midwest during 2012. 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 fiscal 2013 was \$7,525,000 or 56.1% of restaurant sales, as compared to \$7,767,000 or 58.8% of restaurant sales in fiscal 2012. The primary reason for this decline in cost of sales was the result of not operating the Coney Island restaurant during the winter months of fiscal 2013. During the winter, our cost of sales, which includes labor, typically are higher as a percentage of sales, due to the lower sales at the restaurant during the off-season. Other cost of sales declined by \$582,000 in fiscal 2013, primarily because of the termination of our agreement with the QVC television network in March 2012.

Restaurant operating expenses were \$2,700,000 in fiscal 2013 as compared to \$3,115,000 in fiscal 2012. Prior to Superstorm Sandy, restaurant operating costs were higher than the same period in fiscal 2012 by approximately \$204,000 primarily due to higher percentage rent due on the increased sales at the new Boardwalk location. After the Hurricane, restaurant operating costs declined primarily as a result of the ongoing expenses incurred during the period of closure, at our Coney Island restaurants, which have been offset against an insurance advance received relating to damages from Superstorm Sandy (See Note L.4 "Superstorm Sandy" in the accompanying Notes to the Consolidated Financial Statements) . We incurred further savings from the closure of our Yonkers restaurant in November 2012. Although our utility costs declined as a percentage of restaurant sales during fiscal 2013, we continue to be concerned about the volatile market conditions for oil and natural gas.

Depreciation and amortization was \$940,000 in fiscal 2013 as compared to \$965,000 in fiscal 2012. This decrease is primarily attributable to the disposal of the assets destroyed at our Coney Island location due to Superstorm Sandy and lower corporate depreciation which was partly offset by the investment made at the new Boardwalk location and higher depreciation on newly-added consigned equipment by our Branded Product Program. We expect to incur higher depreciation due to our investments in the redevelopment of the Coney Island and Yonkers restaurants in fiscal 2014.

General and administrative expenses increased by \$885,000 or 9.3% to \$10,437,000 in fiscal 2013 as compared to \$9,552,000 in fiscal 2012. The increase in general and administrative expenses was primarily due to increased compensation costs of \$1,025,000, including higher share-based compensation of approximately \$352,000, additional personnel costs and associated expenses including approximately \$80,000 due to the fifty-third week of operations, and higher payroll taxes from the exercise of employee stock options. These expenses were partly offset by lower professional fees of approximately \$124,000.

Interest expense of \$453,000 in fiscal 2013 and \$477,000 in fiscal 2012 primarily represents accrued interest in connection with Nathan's appeal of the SMG damages award calculated at the New York State statutory rate of 9% per annum. In connection with its appeal, on March 31, 2011, Nathan's was required to enter into both a security agreement and a blocked deposit account control agreement and to deposit approximately \$4,910,000 into the account and agree to deposit additional amounts monthly in an amount equal to the post-judgment interest. Nathan's expects to continue to accrue these charges during the term of the appeal.

### **Provision for Income Taxes**

In fiscal 2013, the income tax provision was \$4,671,000 or 38.5% of earnings before income taxes as compared to \$3,849,000 or 38.5% of earnings before income taxes in fiscal 2012. Nathan's effective tax rate was reduced by 1.3% during fiscal 2013 and reduced by 2.1% during fiscal 2012, due to the differing effects of tax-exempt interest income. During fiscal 2013, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$38,000, which lowered the effective tax rate by 0.3%. During fiscal 2012, Nathan's recorded additional taxes of \$49,000 primarily in connection with the audit of its prior year tax returns increasing the effective tax rate by 0.5%. Additionally, during fiscal 2012, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$75,000, which lowered the effective tax rate by 0.7%. Nathan's effective tax rates without these adjustments would have been 40.1% for fiscal 2013 and 40.8% for fiscal 2012. Nathan's estimates that its unrecognized tax benefits, including the related accrued interest and penalties could be reduced by up to \$67,000 during fiscal 2014.

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

At March 31, 2013, Nathan's had open purchase commitments for hot dogs at a total cost of \$5,000,000 which were purchased between April and July 2013. At March 30, 2014, Nathan's did not have any open purchase commitments for hot dogs outstanding. Nathan's may continue to enter into additional purchase commitments in the future as favorable market conditions become available.

### **Liquidity and Capital Resources**

Cash and cash equivalents at March 30, 2014 aggregated \$22,077,000, increasing by \$8,674,000 during fiscal 2014. At March 30, 2014, marketable securities were \$11,187,000 compared to \$12,307,000 at March 31, 2013 and net working capital increased to \$35,378,000 from \$27,525,000 at March 31, 2013.

Cash provided by operations of \$2,876,000, in fiscal 2014 is primarily attributable to net income of \$8,327,000 in addition to other non-cash operating items of \$1,327,000. However, changes in Nathan's operating assets and liabilities decreased cash by \$6,778,000, primarily resulting from the payment of \$6,009,000, in satisfaction of the SMG litigation, inclusive of current year interest of \$135,000, increased accounts and other receivables, net of \$927,000 and increased prepaid and other current assets of \$2,033,000 partially offset by increased accounts payable, accrued expenses and other current liabilities of \$2,329,000. The increase in accounts and other receivables is primarily due to increased sales by the Branded Product Program and increased operating costs from our Coney Island restaurant that were reimbursed pursuant to our business interruption policy in April 2014. The increase in prepaid expenses



primarily relates to higher prepaid estimated income taxes and insurance which were partly offset by the utilization of prepaid sponsorships. The increase in accounts payable, accrued expenses and other current liabilities is due primarily from increased payables in connection with our Branded Product Program, construction associated with the Yonkers renovation, accrued compensation and insurance premiums.

Cash provided by investing activities was \$4,917,000 in fiscal 2014. We received cash proceeds of \$2,711,000 for the settlement of our property claim for the damage incurred primarily at our Flagship Coney Island restaurant and \$2,890,000 from the redemption of maturing available-for-sale securities. On July 24, 2013, SMG, Inc. withdrew \$6,009,000 from the restricted cash account, including cumulative interest of \$1,099,000, satisfying the judgment of the SMG damages award. We incurred capital expenditures of \$4,339,000 primarily in connection with the rebuilding of our Flagship Coney Island and Yonkers restaurants and our Branded Product Program, and funded interest of \$135,000 into the restricted cash account. We estimate we will invest approximately \$1,250,000 in connection with the redevelopment of our Oceanside restaurant during fiscal 2015. We purchased available-for-sale securities of \$2,219,000.

Cash provided by financing activities of \$881,000 in fiscal 2014 includes the expected realization of the tax benefits associated with employee stock option exercises of \$2,195,000 and proceeds from the exercise of employee stock options of \$944,000 reduced by \$772,000 for the payment of withholding tax on the net share settlement exercise of employee stock options. We repurchased treasury stock in the amount of \$1,486,000.

During the period from October 2001 through March 30, 2014, Nathan's purchased 4,610,026 shares of its common stock at a cost of approximately \$54,884,000 including 30,463 shares of stock costing \$1,486,000 during fiscal 2014 pursuant to its stock repurchase plans previously authorized by the Board of Directors. Since March 26, 2007, to date, we have repurchased 2,718,926 shares at a total cost of approximately \$47,726,000, reducing the number of shares then-outstanding by 45.2%.

On November 3, 2009, Nathan's Board of Directors authorized its sixth stock repurchase plan for the purchase of up to 500,000 shares of its common stock on behalf of the Company. On February 1, 2011, Nathan's Board of Directors authorized a 300,000 share increase of shares that the Company may repurchase. As of March 30, 2014, the Company had repurchased 511,067 shares at a cost of \$11,279,000 under the sixth stock repurchase plan.

As of March 30, 2014, an aggregate of 288,933 shares were available to 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.

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

As discussed above, we had cash and cash equivalents at March 30, 2014 aggregating \$22,077,000, and marketable securities of \$11,187,000. Our Board routinely monitors and assesses its cash position and our current and potential capital requirements. We may continue to return capital to our shareholders through stock repurchases, 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 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.

At March 30, 2014, there were three properties that we lease from third parties which we sublease to three franchisees. We remain contingently liable for all costs associated with these properties 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.

On December 1, 2009, a wholly-owned subsidiary of the Company executed a Guaranty of Lease in connection with its re-franchising of a restaurant located in West Nyack, New York. The guaranty could be called upon in the event of a default by the tenant/franchisee. The guaranty extends through the fifth Lease Year, as defined in the lease, and will not exceed an amount equal to the highest amount of the annual minimum rent, percentage rent and any additional rent payable pursuant to the lease and reasonable attorney's fees and other costs. We have recorded a liability of approximately \$193,000 in connection with this guaranty, which does not include potential real estate tax increases and attorney's fees and other costs as these amounts are not reasonably determinable at this time. In connection with the Nathan's Franchise Agreement, Nathan's has received a personal guaranty from the franchisee for all obligations under the guaranty.

The following schedule represents Nathan's cash contractual obligations and commitments by maturity as of March 30, 2014 (in thousands):

Cash Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Employment Agreements	\$4,298	\$1,569	\$1,679	\$650	\$400
Operating Leases (a)	16,287	1,785	3,339	3,403	7,760
Gross Cash Contractual Obligations	20,585	3,354	5,018	4,053	8,160
Sublease Income	3,073	404	524	528	1,617
Net Cash Contractual Obligations	\$17,512	\$2,950	\$4,494	\$3,525	\$6,543

- a) Nathan's has entered into contingent agreements to terminate its lease for the existing Oceanside restaurant and relocate to a smaller restaurant in the same area. Contingent upon the landlord's receipt of the necessary permits and variances, we expect to close the existing restaurant in November 2014 and commence operations of new Oceanside restaurant in March 2015.

At March 30, 2014, the Company had unrecognized tax benefits of \$283,000. The Company believes that it is reasonably possible that the unrecognized tax benefits may decrease by \$64,000 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. In an effort to reduce the impact of increasing market prices, we have entered into purchase commitments for a portion of our hot dogs since January 2008. Beginning in January 2010, the cost of hot dogs continued to increase until the summer of 2012, when the market price of "fresh 50's" unexpectedly dropped significantly. Since then, the cost of this product has rebounded. The market price of hot dogs during fiscal 2014 was approximately 7.5% higher than fiscal 2013 however, the market price of hot dogs was approximately 7.8% higher in the fourth quarter fiscal 2014 than the fourth quarter fiscal 2013. The fiscal 2013 price of hot dogs was approximately 0.01% higher than fiscal 2012. These increases are in addition to fiscal 2012's increase of approximately 12.9% over fiscal 2011. The market price also increased during fiscal 2011 by 9.9% over fiscal 2010. We are unable to predict the future cost of our hot dogs and expect to experience continued price volatility for our beef products during fiscal 2015. In addition, beef prices continue to be extremely volatile due to the supply constraints, as a result of the lingering effect of the drought in the Midwest during 2012. 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 increased insurance costs resulting from the hardening 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 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 2014 or incur new penalties beginning January 2015 which may increase our health care costs.

From time to time, various Federal and New York State legislators have proposed changes to the minimum wage requirements. The New York State minimum wage increased to \$8.00 on December 31, 2013 and will increase to \$8.75 and \$9.00 per hour on December 31, 2014 and December 31, 2015, respectively. The impact of the New York minimum wage increase on the Company amounted to a 4.6% average salary increase for our employees that were affected. On November 5, 2013, the New Jersey Minimum Wage Increase Amendment was affirmatively voted in favor in the general election increasing the New Jersey minimum wage to \$8.25 per hour, with annual cost of living increases. Effective January 1, 2013, ten states increased their minimum wage up to a low of \$7.35 to a high of \$9.19. In addition, there have been recent protests in the City of New York and other municipalities relating to compensation at fast food restaurants. Mayor DeBlasio, of the City of New York, has stated that New York City should have additional increases in the minimum wage. We estimate that this increase in minimum wage has the potential to increase our restaurant cost of sales by approximately 50 bps if prices remain the same. Although we only operate five Company-owned restaurants, we believe that ongoing increases in the minimum wage could have a significant financial impact on our financial results and the results of our franchisees.

April 1, 2014, the City of New York, passed legislation requiring employers to offer paid sick leave to all employees, including part-time employees, that work more than 80 hours for the employer. Nathan's operates three restaurants that will be affected by this new legislation and is currently evaluating the potential impact on its results of operations.

In addition, our union contract expires in June 2014 and a new union contract could also significantly increase labor and associated costs.

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," "Risk Factors" and "Notes to Consolidated Financial Statements" in this Form 10-K.

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

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

We have historically invested our cash and cash equivalents in money market funds or short-term, fixed rate, highly rated and highly liquid instruments which are generally reinvested when they mature. Although these 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 March 30, 2014, Nathan's cash and cash equivalents aggregated \$22,077,000. Earnings on these cash and cash equivalents would increase or decrease by approximately \$55,000 per annum for each 0.25% change in interest rates.

##### **Marketable Securities**

We have 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 March 30, 2014, the market value of

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Nathan's marketable securities aggregated \$11,187,000. Interest income on these marketable securities would increase or decrease by approximately \$28,000 per annum for each 0.25% change in interest rates. The following chart presents the hypothetical changes in the fair value of the marketable investment securities held at March 30, 2014 that are sensitive to interest rate fluctuations:

	Valuation of securities Given an interest rate Decrease of X Basis points			Fair Value	Valuation of securities Given an interest rate Increase of X Basis points		
	(150BPS)	(100BPS)	(50BPS)		+50BPS	+100BPS	+150BPS
Municipal notes and bonds	\$11,191,000	\$11,191,000	\$11,190,000	\$11,187,000	\$11,186,000	\$11,186,000	\$11,185,000

**Borrowings**

At March 30, 2014, we had no outstanding indebtedness. If we were to borrow money in the future, such borrowings would be based upon the then-prevailing interest rates. We 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. Beginning January 2010, the cost of hot dogs has continued to increase until the summer of 2012, when the market price of “fresh 50’s” unexpectedly dropped significantly. Since then, the cost of this product has rebounded to its normal range. The market price of hot dogs during fiscal 2014 was approximately 7.5% higher than fiscal 2013. The market price of hot dogs during fiscal 2013 was approximately 0.01% higher than fiscal 2012. This increase is in addition to fiscal 2012’s increase of approximately 12.9% over fiscal 2011. The market price also increased during fiscal 2011 by 9.9% over fiscal 2010. We have attempted to enter into purchase commitments for hot dogs from time to time in order to reduce the impact of increasing market prices. 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 fifty-two weeks ended March 30, 2014 would have increased or decreased our cost of sales by approximately \$4,708,000.

## **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 8. Financial Statements and Supplementary Data.**

The consolidated financial statements and supplementary data are submitted as a separate section of this report beginning on Page F-1.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None





## **Item 9A. Controls and Procedures.**

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

Our management, with the participation of our Chief Executive Officer, Chief Operating 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, Chief Operating 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.

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

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles in the United States, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management has assessed the effectiveness of our system of internal control over financial reporting as of March 30, 2014. In making this assessment, management used the framework in *Internal Control — Integrated Framework* issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment and the criteria set forth by COSO in 1992, management believes that Nathan's maintained effective internal control over financial reporting as of March 30, 2014. The effectiveness of our internal control over financial reporting as of March 30, 2014, has been audited by Grant Thornton LLP, an independent registered public

accounting firm which has also audited our consolidated financial statements, as stated in its attestation report which is included herein.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the thirteen weeks ended March 30, 2014 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, Chief Operating Officer and Chief Financial Officer have concluded that such controls and procedures are effective at the reasonable assurance level.

### **Item 9B. Other Information.**

None.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
**Nathan's Famous, Inc.**

We have audited the internal control over financial reporting of Nathan's Famous, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of March 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended March 30, 2014, and our report dated June 13, 2014 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

New York, New York

June 13, 2014

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information required in response to this Item is incorporated herein by reference from the discussions under the captions *Proposal 1 – Election of Directors, Corporate Governance Management and Security Ownership* in our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

Our Board of Directors has adopted a Financial Officer Code of Ethics applicable to the Company's Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and all other members of the Company's Finance Department. This Code of Ethics is posted on the Company's website within a broader Code of Business Conduct and Ethics at [www.nathansfamous.com](http://www.nathansfamous.com) in the Investor Relations section. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or a waiver from, the provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of such provision of our Code of Ethics by posting such information on our website within four business days of the date of such amendment or waiver. In the case of a waiver, the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will also be disclosed.

### **Item 11. Executive Compensation.**

The information required in response to this Item is incorporated herein by reference from the discussion under the caption *Executive Compensation*, including the Summary Compensation and other tables, Non-Qualified Deferred Compensation, Risk Consideration in our Compensation Programs and 2014 Director Compensation in our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

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

The information required in response to this Item is incorporated herein by reference from the discussion under the caption *Equity Plan Information and Security Ownership* in our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

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

The information required in response to this Item is incorporated herein by reference from the discussion under the caption *Corporate Governance – Director Independence and Corporate Governance – Certain Relationships and Related Persons* transactions in our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

**Item 14. Principal Accountant Fees and Services.**

**Audit Fees**

We were billed by Grant Thornton LLP the aggregate amount of approximately \$245,000 in respect of fiscal 2014 and \$250,000 in respect of fiscal 2013 for fees for professional services rendered for the audit of our annual financial statements and review of our financial statements included in our Forms 10-Q as well as fees related to the Company's filing of a Registration Statement on Form S-8 in fiscal 2013.

**Audit-Related Fees**

Grant Thornton LLP did not render any audit-related services for fiscal 2014 and 2013 and, accordingly, did not bill for any such services.

**Tax Fees**

Grant Thornton LLP did not render any tax compliance, tax advice or tax planning services for fiscal 2014 and 2013 and, accordingly, did not bill for any such services.

**All Other Fees**

Grant Thornton LLP did not render any other services for fiscal 2014 and 2013 and, accordingly, did not bill for any such services.

**Pre-Approval Policies**

Our Audit Committee has not adopted any pre-approval policies. Instead, the Audit Committee will specifically pre-approve the provision by Grant Thornton LLP of all audit and non-audit services.



Our Audit Committee approved all of the audit services provided by Grant Thornton LLP during 2014 and 2013.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

#### (a)(1) Consolidated Financial Statements

The consolidated financial statements listed in the accompanying index to the consolidated financial statements and schedule on Page F-1 are filed as part of this Report.

#### (2) Financial Statement Schedule

The consolidated financial statement schedule listed in the accompanying index to the consolidated financial statements and schedule on Page F-1 is filed as part of this Report.

#### (3) Exhibits

Certain of the following exhibits were previously filed as exhibits to other reports or registration statements filed by the Registrant under the Securities Act of 1933 or under the Securities Exchange Act of 1934 and are therefrom incorporated by reference.

#### Exhibit

<u>No.</u>	<u>Exhibit</u>
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	Specimen Rights Certificate. (Incorporated by reference to Exhibit 2 to Form 8-A/A dated December 10, 1999.)
4.3	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

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- Current Report filed on Form 8-K dated June 11, 2013.)
- 10.1 Employment Agreement with Wayne Norbitz, dated December 28, 1992. (Incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 No. 33-56976.)
- 10.2 Leases for premises at Coney Island, New York, as follows: (Incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-1 No. 33-56976.)
- a) Lease, dated November 22, 1967, between Nathan's Realty Associates and the Company.
- b) Lease, dated November 22, 1967, between Ida's Realty Associates and the Company.
- 10.3 Lease with NWCM Corp. for premises at Oceanside, New York, dated March 14, 1975. (Incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 No. 33-56976.)
- 10.4 Form of Standard Franchise Agreement. (Incorporated by reference to Exhibit 10.12 to Registration Statement on Form S-1 No. 33-56976.)
- 10.5 401K Plan and Trust. (Incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 No. 33-56976.)
- 10.6 Amendment dated November 8, 1993, to the Employment Agreement, dated December 28, 1992, with Wayne Norbitz. (Incorporated by reference to Exhibit 10.19 to the Annual Report filed on Form 10-K for the fiscal year ended March 27, 1994.)
- 10.7 License Agreement dated as of February 28, 1994, among Nathan's Famous Systems, Inc. and SMG, Inc., including amendments and waivers thereto. (Incorporated by reference to Exhibit 10.21 to the Annual Report filed on Form 10-K for the fiscal year ended March 27, 1994.)
- 10.8 Modification Agreement dated December 31, 1996, to the Employment Agreement with Wayne Norbitz. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report filed on Form 10-Q for the fiscal quarter ended December 29, 1996.)

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- 10.9 Amendment to License Agreement dated as of February 28, 1994, among Nathan's Famous Systems, Inc. and SMG, Inc. including waivers and amendments thereto. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report filed on Form 10-Q for the fiscal quarter ended December 29, 1996.)
- 10.10 2002 Stock Incentive Plan. (Incorporated by reference to Exhibit 4 to Registration Statement on Form S-8 No. 333-101355.)
- 10.11 Employment Agreement with Howard M. Lorber, dated as of December 15, 2006. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated December 15, 2006.)
- 10.12 Employment Agreement with Eric Gatoff, dated as of December 15, 2006. (Incorporated by reference to Exhibit 10.2 to Form 8-K dated December 15, 2006.)
- 10.13 Amendment to Employment Agreement with Eric Gatoff dated August 3, 2010. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the fiscal quarter ended June 27, 2010.)
- 10.14 License Agreement dated April 23, 2008 between Roasters Asia Pacific (Cayman) Limited and Nathan's Famous, Inc. (Incorporated by reference to Exhibit 10.2 to Form 8-K dated April 23, 2008.)
- 10.15 Agreement of Lease between One-Two Jericho Plaza Owner LLC and Nathan's Famous Services, Inc. dated September 11, 2009, (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 27, 2009.)
- 10.16 Guaranty by Nathan's Famous, Inc. of Agreement of Lease with One-Two Jericho Plaza Owner LLC dated September 11, 2009, (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 27, 2009.)
- 10.17 2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Proxy Statement on Schedule 14A dated July 23, 2010).
- 10.18 Amendment to 2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Proxy Statement on Schedule 14A dated July 23, 2012).
- 10.19 Amendment to Employment Agreement with Howard M. Lorber, dated November 1, 2012. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 23, 2012.)
- 10.20 Restricted Stock Agreement with Howard M. Lorber, dated November 1, 2012. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 23, 2012.)
- 10.21 \*\*\*Letter agreement dated December 5, 2012 between Nathan's Famous Systems, Inc. and John Morrell & Co. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended December 23, 2012).
- 10.22 Restricted Stock Agreement with Eric Gatoff, dated June 4, 2013. (Incorporated by reference to Exhibit 10.27 to Form 10-K for the year ended March 31, 2013.)
- 21 \*List of Subsidiaries of the Registrant.
- 23 \*Consent of Grant Thornton LLP dated June 13, 2014.
- 31.1 \*Certification by Eric Gatoff, Chief Executive Officer, pursuant to Rule 13a - 14(a).
- 31.2 \*Certification by Ronald G. DeVos, Chief Financial Officer, pursuant to Rule 13a - 14(a).
- 32.1 \*Certification by Eric Gatoff, Chief Executive Officer of 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, Chief Financial Officer of 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.INS \*\*XBRL Instance Document.

101.SCH \*\* XBRL Taxonomy Extension Schema Document

101.CAL \*\* XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF \*\* XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB \*\* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE \*\* XBRL Taxonomy Extension Presentation Linkbase Document.

\*Filed herewith.

\*\*In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be “furnished” and not “filed”.

\*\*\*Filed with confidential portions omitted pursuant to request for confidential treatment. The omitted portions have been separately filed with the SEC.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 13th day of June, 2014.

Nathan's Famous, Inc.

/s/ ERIC GATOFF  
Eric Gatoff  
Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 13th day of June, 2014.

/s/ ERIC GATOFF  
Eric Gatoff  
Chief Executive Officer  
(Principal Executive Officer)

/s/ HOWARD LORBER  
Howard Lorber  
Executive Chairman

/s/ WAYNE NORBITZ  
Wayne Norbitz  
President, Chief Operating Officer and Director

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

/s/ ROBERT J. EIDE  
Robert J. Eide  
Director

/s/ BARRY LEISTNER  
Barry Leistner  
Director

/s/ BRIAN GENSON  
Brian Genson  
Director

/s/ ATTILIO F. PETROCELLI  
Attilio F. Petrocelli  
Director

/s/ CHARLES RAICH  
Charles Raich  
Director

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Nathan's Famous, Inc. and Subsidiaries

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

**Nathan's Famous, Inc.**

We have audited the accompanying consolidated balance sheets of Nathan's Famous, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of March 30, 2014 and March 31, 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fifty-two weeks ended March 30, 2014, the fifty-three weeks ended March 31, 2013, and the fifty-two weeks ended March 25, 2012. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nathan's Famous, Inc. and subsidiaries as of March 30, 2014 and March 31, 2013, and the results of their operations and their cash flows for the fifty-two weeks ended March 30, 2014, the fifty-three weeks ended March 31, 2013, and the fifty-two weeks ended March 25, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 13, 2014 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

New York, New York

June 13, 2014

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

(in thousands, except share and per share amounts)

	<b>March 30, 2014</b>	March 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$22,077</b>	\$13,403
Marketable securities	<b>11,187</b>	12,307
Restricted cash	<b>-</b>	5,874
Accounts and other receivables, net	<b>7,823</b>	6,917
Inventories	<b>947</b>	1,046
Prepaid expenses and other current assets (Note F)	<b>3,129</b>	1,096
Deferred income taxes	<b>26</b>	345
Total current assets	<b>45,189</b>	40,988
Property and equipment, net	<b>8,970</b>	5,788
Long-term investment (Note G)	<b>100</b>	500
Goodwill	<b>95</b>	95
Intangible asset	<b>1,353</b>	1,353
Deferred income taxes	<b>-</b>	480
Other assets	<b>428</b>	458
	<b>\$56,135</b>	\$49,662
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	<b>\$4,826</b>	\$2,991
Litigation accrual (Note L.2)	<b>-</b>	5,874
Accrued expenses and other current liabilities	<b>4,751</b>	4,320
Deferred franchise fees	<b>234</b>	278
Total current liabilities	<b>9,811</b>	13,463
Other liabilities	<b>1,693</b>	2,051
Deferred income taxes	<b>734</b>	-
Total liabilities	<b>12,238</b>	15,514
<b>COMMITMENTS AND CONTINGENCIES (Note L)</b>		

## STOCKHOLDERS' EQUITY

Common stock, \$.01 par value; 30,000,000 shares authorized; 9,092,183 and 8,958,181 shares issued; and 4,482,157 and 4,378,618 shares outstanding at March 30, 2014 and March 31, 2013, respectively	<b>91</b>	90
Additional paid-in capital	<b>57,578</b>	54,491
Retained earnings	<b>40,963</b>	32,636
Accumulated other comprehensive income	<b>149</b>	329
	<b>98,781</b>	87,546
Treasury stock, at cost, 4,610,026 and 4,579,563 shares at March 30, 2014 and March 31, 2013, respectively	<b>(54,884)</b>	(53,398)
Total stockholders' equity	<b>43,897</b>	34,148
	<b>\$56,135</b>	\$49,662

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

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share amounts)

	<b>Fifty-Two</b>	Fifty-Three	Fifty-Two
	<b>weeks</b>	weeks	weeks
	<b>ended</b>	ended	ended
	March 30,	March 31,	March 25,
	2014	2013	2012
<b>REVENUES</b>			
Sales	<b>\$65,521</b>	\$56,656	\$52,369
Franchise fees and royalties	<b>5,718</b>	5,842	5,646
License royalties	<b>8,513</b>	8,571	7,526
Interest income	<b>325</b>	392	573
Insurance gain (Note L.4)	<b>2,774</b>	-	-
Other income, net	<b>76</b>	82	108
Total revenues	<b>82,927</b>	71,543	66,222
<b>COSTS AND EXPENSES</b>			
Cost of sales	<b>53,072</b>	44,874	42,106
Restaurant operating expenses	<b>3,142</b>	2,700	3,115
Depreciation and amortization	<b>1,157</b>	940	965
General and administrative expenses	<b>11,460</b>	10,437	9,552
Impairment charge – long-term investment (Note G)	<b>400</b>	-	-
Interest expense	<b>135</b>	453	477
Total costs and expenses	<b>69,366</b>	59,404	56,215
Income from operations before provision for income taxes	<b>13,561</b>	12,139	10,007
Provision for income taxes	<b>5,234</b>	4,671	3,849
Net income	<b>\$8,327</b>	\$7,468	\$6,158
<b>PER SHARE INFORMATION</b>			
Income per share:			
Basic	<b>\$1.87</b>	\$1.70	\$1.26
Diluted	<b>\$1.81</b>	\$1.63	\$1.22
Weighted average shares used in computing income per share:			
Basic	<b>4,450,000</b>	4,400,000	4,906,000
Diluted	<b>4,605,000</b>	4,588,000	5,049,000

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

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

(in thousands)

	<b>Fifty-Two</b>	Fifty-Three	Fifty-Two
	<b>weeks</b>	weeks	weeks
	<b>ended</b>	ended	ended
	March 30,	March 31,	March 25,
	2014	2013	2012
Net income	<b>\$ 8,327</b>	\$ 7,468	\$ 6,158
Other comprehensive income (loss), net of deferred income taxes:			
Unrealized gains (losses) on marketable securities	<b>(180 )</b>	(168 )	16
Other comprehensive income (loss)	<b>(180 )</b>	(168 )	16
Comprehensive income	<b>\$ 8,147</b>	\$ 7,300	\$ 6,174

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

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

Fifty-two weeks ended March 30, 2014, the Fifty-three weeks ended March 31, 2013 and the Fifty-two weeks ended March 25, 2012

(in thousands, except share amounts)

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost Shares	Stock, at Amount	Total Stockholders' Equity
Balance, March 27, 2011	8,837,991	\$88	\$52,945	\$19,010	\$481	3,755,278	\$(34,446 )	\$38,078
Shares issued in connection with share-based compensation plans	17,272	1	64	-	-	-	-	65
Repurchase of common stock	-	-	-	-	-	736,208	(15,867 )	(15,867 )
Income tax benefit on stock option exercises	-	-	113	-	-	-	-	113
Share-based compensation	-	-	274	-	-	-	-	274
Unrealized gains on marketable securities, net	-	-	-	-	16	-	-	16



of deferred  
income taxes  
of \$11

Net income	-	-	-	6,158	-	-	-	6,158
Balance, March 25, 2012	8,855,263	\$89	\$53,396	\$25,168	\$497	4,491,486	\$(50,313 )	\$28,837

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

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Fifty-two weeks ended March 30, 2014, the Fifty-three weeks ended March 31, 2013 and the Fifty-two weeks ended March 25, 2012

(in thousands, except share amounts)

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost Shares	Treasury Stock, at Amount	Total Stockholders' Equity
Balance, March 25, 2012	8,855,263	\$89	\$53,396	\$25,168	\$497	4,491,486	\$(50,313 )	\$28,837
Shares issued in connection with share-based compensation plans	102,918	1	388	-	-	-	-	389
Withholding tax on net share settlement of employee stock options	-	-	(982 )	-	-	-	-	(982 )
Repurchase of common stock	-	-	-	-	-	88,077	(3,085 )	(3,085 )
Income tax benefit on stock option exercises	-	-	1,062	-	-	-	-	1,062
	-	-	627	-	-	-	-	627

Share-based  
compensation

Unrealized  
losses on  
marketable  
securities, net  
of deferred  
income tax  
benefit of  
\$105

Net income	-	-	-	7,468	-	-	-	7,468
Balance, March 31, 2013	8,958,181	\$90	\$54,491	\$32,636	\$329	4,579,563	\$(53,398 )	\$34,148

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

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Fifty-two weeks ended March 30, 2014, the Fifty-three weeks ended March 31, 2013 and the Fifty-two weeks ended March 25, 2012

(in thousands, except share amounts)

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost Shares	Stockholders' Equity	Total Stockholders' Equity
<b>Balance, March 31, 2013</b>	<b>8,958,181</b>	<b>\$90</b>	<b>\$54,491</b>	<b>\$32,636</b>	<b>\$329</b>	<b>4,579,563</b>	<b>\$(53,398 )</b>	<b>\$34,148</b>
<b>Shares issued in connection with share-based compensation plans</b>	<b>134,002</b>	<b>1</b>	<b>943</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>944</b>
<b>Withholding tax on net share settlement of employee stock options</b>	<b>-</b>	<b>-</b>	<b>(772 )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(772)</b>
<b>Repurchase of common stock</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,463</b>	<b>(1,486 )</b>	<b>(1,486)</b>
<b>Income tax benefit on stock option exercises</b>	<b>-</b>	<b>-</b>	<b>2,195</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,195</b>
	<b>-</b>	<b>-</b>	<b>721</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>721</b>

**Share-based  
compensation****Unrealized  
losses on  
marketable  
securities, net  
of deferred  
income tax  
benefit of  
\$119****Net income****Balance,  
March 30,  
2014**

-	-	-	-	(180	) -	-	(180
-	-	-	8,327	-	-	-	8,327
9,092,183	\$91	\$57,578	\$40,963	\$149	4,610,026	\$(54,884)	\$43,897

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

## Nathan's Famous, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	<b>Fifty-Two</b>	Fifty-Three	Fifty-Two
	<b>weeks</b>	weeks	weeks
	<b>ended</b>	ended	ended
	March 30,	March 31,	March 25,
	2014	2013	2012
Cash flows from operating activities:			
Net income	<b>\$ 8,327</b>	\$ 7,468	\$ 6,158
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	<b>1,157</b>	940	965
Insurance gain	<b>(2,774 )</b>	-	-
Amortization of bond premium	<b>150</b>	130	193
Share-based compensation expense	<b>721</b>	627	274
Provision for doubtful accounts	<b>21</b>	15	86
Impairment charge – long-term investment	<b>400</b>	-	-
Deferred income taxes	<b>1,652</b>	497	2,041
Changes in operating assets and liabilities:			
Accounts and other receivables, net	<b>(927 )</b>	(397 )	(501 )
Inventories	<b>99</b>	79	14
Prepaid expenses and other current assets	<b>(2,033 )</b>	298	(329 )
Other assets	<b>30</b>	7	(72 )
Accrued litigation	<b>(5,874 )</b>	455	447
Accounts payable, accrued expenses and other current liabilities	<b>2,329</b>	(838 )	347
Advances of insurance proceeds	<b>-</b>	130	-
Deferred franchise fees	<b>(44 )</b>	155	(218 )
Other liabilities	<b>(358 )</b>	(72 )	207
Net cash provided by operating activities	<b>2,876</b>	9,494	9,612
Cash flows from investing activities:			
Proceeds from sales and maturities of marketable securities	<b>2,890</b>	2,000	4,050
Insurance proceeds received for property and equipment (Note L.4)	<b>2,711</b>	449	-
Purchase of long-term investment	<b>-</b>	(500 )	-
Change in restricted cash	<b>(135 )</b>	(455 )	(447 )
Purchase of property and equipment	<b>(4,339 )</b>	(998 )	(1,358 )
Purchase of available for sale securities	<b>(2,219 )</b>	-	-
Payments received on sale of note receivable	<b>-</b>	-	900

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Litigation settlement (Note L.2)	<b>6,009</b>	-	-
Payments received on note receivable	-	-	21
Net cash provided by investing activities	<b>4,917</b>	496	3,166
Cash flows from financing activities:			
Repurchase of treasury stock	<b>(1,486)</b>	(3,085)	(15,867)
Proceeds from the exercise of stock options	<b>944</b>	389	65
Income tax benefit on stock option exercises	<b>2,195</b>	1,062	113
Payments of withholding tax on net share settlement of employee stock options	<b>(772)</b>	(982)	-
Net cash provided by (used in) financing activities	<b>881</b>	(2,616)	(15,689)
Net increase (decrease) in cash and cash equivalents	<b>8,674</b>	7,374	(2,911)
Cash and cash equivalents, beginning of year	<b>13,403</b>	6,029	8,940
Cash and cash equivalents, end of year	<b>\$ 22,077</b>	\$ 13,403	\$ 6,029
Cash paid during the year for:			
Interest	<b>\$ 1,099</b>	\$ -	\$ -
Income taxes	<b>\$ 3,457</b>	\$ 2,548	\$ 1,944

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in thousands, except share and per share amounts)

**March 30, 2014, March 31, 2013, and March 25, 2012**

**NOTE A - DESCRIPTION AND ORGANIZATION OF BUSINESS**

Nathan's Famous, Inc. and subsidiaries (collectively the "Company" or "Nathan's") has historically operated or franchised a chain of retail fast food restaurants featuring the "Nathan's World Famous Beef Hot Dog", crinkle-cut French-fried potatoes and a variety of other menu offerings. Nathan's has also established a Branded Product Program, which enables foodservice retailers to sell select Nathan's proprietary products outside of the realm of a traditional franchise relationship. Nathan's also licenses the manufacture and sale of "Nathan's Famous" packaged hot dogs, crinkle-cut French fries and a number of other products to a variety of third parties for sale to supermarkets, club stores and grocery stores. The Company is also the owner of the Arthur Treacher's brand. Arthur Treacher's main product is its "Original Fish & Chips" product consisting of fish fillets coated with a special batter prepared under a proprietary formula, deep-fried golden brown, and served with English-style chips and corn meal "hush puppies." The Company considers itself to be in the foodservice industry, and has pursued co-branding and co-hosting initiatives.

At March 30, 2014, the Company's restaurant system included five Company-owned units in the New York City metropolitan area and 324 franchised or licensed units, located in 28 states, the Cayman Islands and eight foreign countries.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements:



1. *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

2. *Fiscal Year*

The Company's fiscal year ends on the last Sunday in March, which results in a 52 or 53-week reporting period. The results of operations and cash flows for the fiscal year ended March 30, 2014 contained 52 weeks. The results of operations and cash flows for the fiscal years ended March 31, 2013 contained 53 weeks and March 28, 2012 contained 52 weeks.

3. *Use of Estimates*

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

Significant estimates made by management in preparing the consolidated financial statements include revenue recognition, the allowance for doubtful accounts, valuation of stock-based compensation, accounting for income taxes, and the valuation of goodwill, intangible assets and other long-lived assets.

4. *Cash and Cash Equivalents*

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents amounted to \$330 and \$172 at March 30, 2014 and March 31, 2013, respectively. Substantially all of the Company's cash and cash equivalents are in excess of government insurance.

Restricted cash, at March 31, 2013, represents amount held on deposit to secure Nathan's obligation related to its litigation accrual (Note L.).

5. *Inventories*

Inventories, which are stated at the lower of cost or market value, consist primarily of food items and supplies. Cost is determined using the first-in, first-out method.

6. *Marketable Securities*

The Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of the classification at each reporting date. At March 30, 2014 and March 31, 2013, all marketable securities held by the Company have been classified as available-for-sale and, as a result, are stated at fair value, based

upon quoted market prices for similar assets as determined in active markets or model-derived valuations in which all significant inputs are observable for substantially the full-term of the asset, with unrealized gains and losses included as a component of accumulated other comprehensive income. Realized gains and losses on the sale of securities are determined on a specific identification basis. Interest income is recorded when it is earned and deemed realizable by the Company.

7. *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term of the related asset. The estimated useful lives are as follows:

Building and improvements (in years)	5- 25
Machinery, equipment, furniture and fixtures (in years)	3- 15
Leasehold improvements (in years)	5- 20

8. *Goodwill and Intangible Assets*

Goodwill and intangible assets consist of (i) goodwill of \$95 resulting from the acquisition of Nathan's in 1987; and (ii) trademarks, trade names and other intellectual property of \$1,353 in connection with Arthur Treacher's.

The Company's goodwill and intangible assets are deemed to have indefinite lives and, accordingly, are not amortized, but are evaluated for impairment at least annually, but more often whenever changes in facts and circumstances occur which may indicate that the carrying value may not be recoverable. As of March 30, 2014 and March 31, 2013, the Company performed its required annual impairment test of goodwill and intangible assets and has determined no impairment is deemed to exist.

9. *Long-lived Assets*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In instances where impairment is determined to exist, the Company writes down the asset to its fair value based on the present value of estimated future cash flows.

Impairment losses are recorded on long-lived assets on a restaurant-by-restaurant basis whenever impairment factors are determined to be present. The Company considers a history of restaurant operating losses to be its primary indicator of potential impairment for individual restaurant locations. As a result of Hurricane Sandy, our Coney Island restaurant sustained significant damage which resulted in the write-off of \$449 related to destroyed property (Note L.4). The restaurant was fully repaired and re-opened on May 20, 2013. No long-lived assets were deemed impaired during the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012.

10. *Fair Value of Financial Instruments*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The fair value hierarchy, as outlined in the applicable accounting guidance, is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

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

The use of observable market inputs (quoted market prices) when measuring fair value and, specifically, the use of Level 1 quoted prices to measure fair value are required whenever possible. The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures quarterly and based on various factors, it is possible that an asset or liability may be classified differently from year to year.

The following table presents assets and liabilities measured at fair value on a recurring basis as of March 30, 2014 and March 31, 2013 based upon the valuation hierarchy:

<b>March 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Carrying Value</b>
<b>Marketable securities</b>	\$ -	\$11,187	\$ -	\$ 11,187
<b>Total assets at fair value</b>	\$ -	\$11,187	\$ -	\$ 11,187

March 31, 2013	Level 1	Level 2	Level 3	Carrying Value
Marketable securities	\$ -	\$12,307	\$ -	\$ 12,307
Total assets at fair value	\$ -	\$12,307	\$ -	\$ 12,307

Nathan's marketable securities, which consist primarily of municipal bonds, are not actively traded. The valuation of such bonds is based upon quoted market prices for similar bonds currently trading in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset.

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

The majority of the Company's non-financial assets and liabilities are not required to be carried at fair value on a recurring basis. However, the Company is required on a non-recurring basis to use fair value measurements when analyzing asset impairment as it relates to goodwill and other indefinite-lived intangible assets and long-lived assets. The Company utilized the income approach (Level 3 inputs) which utilized cash flow forecasts for future income and were discounted to present value in performing its annual impairment testing of intangible assets.

## 11. Start-up Costs

Pre-opening and similar restaurant costs are expensed as incurred.

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*12. Revenue Recognition - Branded Product Program*

The Company recognizes sales from the Branded Product Program and certain products sold from the Branded Menu Program upon delivery to Nathan's customers via third party common carrier. Rebates provided to customers are classified as a reduction to sales.

*13. Revenue Recognition - Company-owned Restaurants*

Sales by Company-owned restaurants, which are typically paid in cash or credit card by the customer, are recognized at the point of sale. Sales are presented net of sales tax.

*14. Revenue Recognition - Franchising Operations*

In connection with its franchising operations, the Company receives initial franchise fees, area development fees, royalties, and in certain cases, revenue from sub-leasing restaurant properties to franchisees.

Franchise and area development fees, which are typically received prior to completion of the revenue recognition process, are initially recorded as deferred revenue. Initial franchise fees, which are non-refundable, are recognized as income when substantially all services to be performed by Nathan's and conditions relating to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations.

The following services are typically provided by the Company prior to the opening of a franchised restaurant:

- o Approval of all site selections to be developed.
- o Provision of architectural plans suitable for restaurants to be developed.
- o Assistance in establishing building design specifications, reviewing construction compliance and equipping the restaurant.
- o Provision of appropriate menus to coordinate with the restaurant design and location to be developed.
  - o Provision of management training for the new franchisee and selected staff.
- o Assistance with the initial operations of restaurants being developed.



At March 30, 2014 and March 31, 2013, \$234 and \$278, respectively, of deferred franchise fees are included in the accompanying consolidated balance sheets. For the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, the Company earned franchise fees of \$863, \$852, and \$920, respectively, from new unit openings, transfers, co-branding and forfeitures.

Development fees are nonrefundable and the related agreements require the franchisee to open a specified number of restaurants in the development area within a specified time period or the agreements may be canceled by the Company. Revenue from development agreements is deferred and shall be recognized, with an appropriate provision for estimated uncollectable amounts, when all material services or conditions to the sale have been substantially performed by the franchisor.

If substantial obligations under the development agreement are not dependent on the number of individual franchise locations to be opened, substantial performance shall be determined using the same criteria applicable to an individual franchise, which is generally the opening of the first location pursuant to the development agreement. If substantial performance is dependent on the number of locations, then the development fee is deferred and recognized ratably over the term of the agreement, as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open, or at the time the development agreement is effectively canceled. At March 30, 2014 and March 31, 2013, \$200 and \$401, respectively, of deferred development fee revenue is included in other liabilities in the accompanying consolidated balance sheets.

The following is a summary of franchise openings and closings for the Nathan's franchise restaurant system for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012:

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Franchised restaurants operating at the beginning of the period	<b>303</b>	299	264
New franchised restaurants opened during the period	<b>56</b>	40	67
Franchised restaurants closed during the period	<b>(35 )</b>	(36 )	(32 )
Franchised restaurants operating at the end of the period	<b>324</b>	303	299

The Company recognizes franchise royalties on a monthly basis, which are generally based upon a percentage of sales made by the Company's franchisees, when they are earned and deemed collectible. The Company recognizes royalty revenue from its Branded Menu Program directly from the sale of Nathan's products by its primary distributor or directly from the manufacturers.

Franchise fees and royalties that are not deemed to be collectible are not recognized as revenue until paid by the franchisee or until collectibility is deemed to be reasonably assured.

Revenue from sub-leasing properties is recognized in income as the revenue is earned and deemed collectible. Sub-lease rental income is presented net of associated lease costs in the accompanying consolidated statements of earnings.

#### *15. Revenue Recognition – License Royalties*

The Company earns revenue from royalties on the licensing of the use of its intellectual property in connection with certain products produced and sold by outside vendors. The use of the Company's intellectual property must be approved by the Company prior to each specific application to ensure proper quality and a consistent image. Revenue from license royalties is recognized on a monthly basis when it is earned and deemed collectible.

*16. Business Concentrations and Geographical Information*

The Company's accounts receivable consist principally of receivables from franchisees for royalties and advertising contributions, from sales under the Branded Product Program, and from royalties from retail licensees. At March 30, 2014, three Branded Product customers represented 23%, 13% and 11%, of accounts receivable. At March 31, 2013, one retail licensee and three Branded Product customers each represented 18%, 16%, 11% and 10%, respectively, of accounts receivable. One Branded Products customer accounted for 17% and 12% of total revenue for the years ended March 30, 2014 and March 31, 2013, respectively. No franchisee, retail licensee or Branded Product customer accounted for 10% or more of total revenues during the fiscal year ended March 25, 2012.

The Company's primary supplier of hot dogs represented 75%, 82% and 79% of product purchases for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively. The Company's distributor of products to its Company-owned restaurants represented 5%, 7% and 8% of product purchases for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

The Company's revenues for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 were derived from the following geographic areas:

	<b>March 30,</b>	March 31,	March 25,
	<b>2014</b>	2013	2012
Domestic (United States)	<b>\$79,396</b>	\$68,499	\$64,534
Non-domestic	<b>3,531</b>	3,044	1,688
	<b>\$82,927</b>	\$71,543	\$66,222

The Company's sales for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 were derived from the following:

	<b>March 30,</b>	March 31,	March 25,
	<b>2014</b>	2013	2012
Branded Products	<b>\$51,877</b>	\$43,214	\$38,506
Company-owned restaurants	<b>13,231</b>	13,403	13,209
Other	<b>413</b>	39	654
	<b>\$65,521</b>	\$56,656	\$52,369

#### 17. Advertising

The Company administers an advertising fund on behalf of its franchisees to coordinate the marketing efforts of the Company. Under this arrangement, the Company collects and disburses fees paid by manufacturers, franchisees and Company-owned stores for national and regional advertising, promotional and public relations programs.

Contributions to the advertising fund are based on specified percentages of net sales, generally ranging up to 2%. Company-owned store advertising expense, which is expensed as incurred, was \$147, \$144, and \$227, for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively, and have been included within

restaurant operating expenses in the accompanying consolidated statements of earnings.

*18. Stock-Based Compensation*

At March 30, 2014, the Company had one stock-based compensation plan in effect which is more fully described in Note K.

The cost of all share-based payments, including grants of restricted stock and stock options, is recognized in the financial statements based on their fair values measured at the grant date, or the date of any later modification, over the requisite service period. The Company recognizes compensation cost for unvested stock awards on a straight-line basis over the requisite vesting period.

19. *Classification of Operating Expenses*

Cost of sales consists of the following:

- o The cost of food and other products sold by Company-operated restaurants, through the Branded Product Program<sup>o</sup> and through other distribution channels.
- o The cost of labor and associated costs of in-store restaurant management and crew.
- o The cost of paper products used in Company-operated restaurants.
- o Other direct costs such as fulfillment, commissions, freight and samples.

Restaurant operating expenses consist of the following:

- o Occupancy costs of Company-operated restaurants.
- o Utility costs of Company-operated restaurants.
- o Repair and maintenance expenses of Company-operated restaurant facilities.
- o Marketing and advertising expenses done locally and contributions to advertising funds for Company-operated<sup>o</sup> restaurants.
- o Insurance costs directly related to Company-operated restaurants.

20. *Income Taxes*

The Company's current provision for income taxes is based upon its estimated taxable income in each of the jurisdictions in which it operates, after considering the impact on taxable income of temporary differences resulting from different treatment of items for tax and financial reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and any operating loss or tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible. Should management determine that it is more likely than not that some portion of the deferred tax assets will not be realized, a valuation allowance against the deferred tax assets would be established in the period such determination was made.

*Uncertain Tax Positions*

The Company has recorded liabilities for underpayment of income taxes and related interest and penalties for uncertain tax positions based on the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Nathan's recognizes accrued interest and penalties associated with unrecognized tax benefits as part of the income tax provision.

21. *Reclassifications*

Certain prior year balances have been reclassified to conform with current year presentation.

22. *Adoption of New Accounting Pronouncements*

In April 2014, the FASB issued new accounting guidance changing the criteria for reporting discontinued operations. The revised definition of a discontinued operation includes those components of an entity or a group of components of an entity representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The guidance eliminates the current requirement to assess continuing cash flow and continuing involvement with the disposal group. The revised definition also includes a business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale. A disposal meeting the new definition is required to be reported as discontinued operations when the component of an entity or group of components of an entity meets the held for sale criteria, is actually disposed of by sales, or is disposed of through means other than a sale. The guidance is effective for Nathan's for annual periods beginning on or after December 15, 2014 and interim periods within those years, which for Nathan's will be the first quarter fiscal 2016 beginning March 30, 2015. Early adoption is permitted for disposals that have not been previously reported in the financial statements. Nathan's does not expect the adoption of this new guidance to have a material impact on the results of operations or financial position.

In July 2012, the FASB issued new accounting guidance on testing indefinite-lived intangible assets for impairment. The new guidance provides the entity with the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived asset is less than its carrying value. If it is not, then no further analysis is required otherwise then the previously required quantitative testing is required. Nathan's adopted the new guidance beginning with its first quarter of fiscal 2014. The adoption of this new guidance did not have a material impact on the results of operations or financial position.

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 C - 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 effects 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 restricted stock, using the treasury stock method.

The following chart provides a reconciliation of information used in calculating the per share amounts for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively:



	Net Income			Shares			Net income per share		
	<b>2014</b>	2013	2012	<b>2014</b>	2013	<u>2012</u>	<b>2014</b>	2013	2012
<u>Basic EPS</u>									
Basic calculation	<b>\$8,327</b>	\$7,468	\$6,158	<b>4,450,000</b>	4,400,000	4,906,000	<b>\$1.87</b>	\$1.70	\$1.26
Effect of dilutive employee stock options	-	-	-	<b>155,000</b>	188,000	143,000	<b>(.06)</b>	(.07)	(.04)
<u>Diluted EPS</u>									
Diluted calculation	<b>\$8,327</b>	\$7,468	\$6,158	<b>4,605,000</b>	4,588,000	5,049,000	<b>\$1.81</b>	\$1.63	\$1.22

There were no options to purchase shares of common stock for the years ended March 30, 2014, March 31, 2013 and March 25, 2012 that were excluded from the computation of diluted earnings per share.

**NOTE D – MARKETABLE SECURITIES**

The cost, gross unrealized gains, gross unrealized losses and fair market value for marketable securities, which consist entirely of municipal bonds that are classified as available-for-sale securities are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
<b>March 30, 2014</b>	<b>\$10,947</b>	<b>\$ 240</b>	<b>\$ -</b>	<b>\$11,187</b>
March 31, 2013	\$11,768	\$ 539	\$ -	\$12,307

As of March 30, 2014, the municipal bonds mature at various dates between April 2014 and October 2019. The following represents the bond maturities by period:

<u>Fair value of Municipal Bonds</u>	Total	Less than 1 Year	1 – 5 Years	5 – 10 Years	After 10 Years
<b>March 30, 2014</b>	<b>\$11,187</b>	<b>\$5,214</b>	<b>\$4,792</b>	<b>\$1,181</b>	<b>\$ -</b>

Proceeds from the sale of available-for-sale securities and the resulting gross realized gains included in the determination of net income are as follows:

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Available-for-sale securities:			
Proceeds	<b>\$2,890</b>	\$2,000	\$4,050
Gross realized gains	<b>\$-</b>	\$-	\$-

The change in net unrealized (losses) gains on available-for-sale securities for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, of \$(180), \$(168) and \$16, respectively, which is net of deferred income taxes,

has been included as a component of comprehensive income. Accumulated other comprehensive income is comprised entirely of the net unrealized gains on available-for-sale securities as of March 30, 2014 and March 31, 2013.

#### NOTE E - ACCOUNTS AND OTHER RECEIVABLES, NET

Accounts and other receivables, net, consist of the following:

	<b>March 30, 2014</b>	March 31, 2013
Franchise and license royalties	<b>\$1,658</b>	\$2,355
Branded product sales	<b>5,141</b>	4,071
Other	<b>1,457</b>	621
	<b>8,256</b>	7,047
Less: allowance for doubtful accounts	<b>433</b>	130
Accounts and other receivables, net	<b>\$7,823</b>	\$6,917

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 outstanding longer than the contractual payment terms are generally considered past due.

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 uncollectable amounts through a charge to earnings. The Company writes off accounts receivable when they are deemed to be uncollectible against the allowance for doubtful accounts.

Changes in the Company's allowance for doubtful accounts for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 are as follows:

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Beginning balance	<b>\$ 130</b>	\$ 138	\$ 62
Bad debt expense	<b>21</b>	15	86
Uncollectible marketing fund contributions	<b>320</b>	5	-
Accounts written off	<b>(38 )</b>	(28 )	(10 )
Ending balance	<b>\$ 433</b>	\$ 130	\$ 138

#### **NOTE F – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

	<b>March 30, 2014</b>	March 31, 2013
Income taxes	<b>\$2,059</b>	\$-
Insurance	<b>506</b>	359
Other	<b>564</b>	737
	<b>\$3,129</b>	\$1,096

#### **NOTE G – LONG-TERM INVESTMENT**

In September 2012, Nathan's purchased 351,550 shares of Series A Preferred Stock in a privately-owned corporation for \$500. Nathan's investment originally represented a 2.5% equity ownership in the entity and Nathan's does not have the ability to exercise significant influence over the investee. The shares have voting rights on the same basis as the common shareholders and have certain dividend rights, if declared. Nathan's accounts for this investment pursuant to

the cost method and recognizes dividends distributed by the investee as income to the extent that dividends are distributed from net accumulated earnings of the investee. There were no dividends declared by the investee during the fifty-two week period ended March 30, 2014. Each reporting period, management reviews the carrying value of this investment based upon the financial information provided by the investment's management and considers whether indicators of impairment exist. If an impairment indicator exists, management evaluates the fair value of its investment to determine if an, other-than-temporary impairment in value has occurred. We are required to recognize an impairment on the investment if such impairment is considered to be other-than-temporary. We have performed our evaluation of whether indicators of impairment existed, and determined that an other-than-temporary impairment has occurred and recorded an impairment charge of \$400 on this investment during the fifty-two week period ended March 30, 2014.

**NOTE H - PROPERTY AND EQUIPMENT, NET**

Property and equipment consists of the following:

	<b>March 30,</b>	March 31,
	<b>2014</b>	2013
Land	<b>\$1,197</b>	\$1,197
Building and improvements	<b>2,161</b>	2,045
Machinery, equipment, furniture and fixtures	<b>6,349</b>	5,460
Leasehold improvements	<b>6,792</b>	3,878
Construction-in-progress	<b>25</b>	569
	<b>16,524</b>	13,149
Less: accumulated depreciation and amortization	<b>7,554</b>	7,361
	<b>\$8,970</b>	\$5,788

**NOTE I – ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	<b>March 30,</b>	March 31,
	<b>2014</b>	2013
Payroll and other benefits	<b>\$2,433</b>	\$2,248
Accrued rebates	<b>855</b>	648
Rent and occupancy costs	<b>163</b>	197
Deferred revenue	<b>734</b>	581
Construction costs	<b>281</b>	25
Unexpended advertising funds	<b>52</b>	181
Other	<b>\$233</b>	\$440
	<b>4,751</b>	4,320

Other liabilities consist of the following:

	<b>March</b>	March
	<b>30,</b>	31,
	<b>2014</b>	2013
Deferred development fees	<b>\$200</b>	\$401
Reserve for uncertain tax positions (Note J)	<b>620</b>	639
Deferred rental liability	<b>661</b>	764
Other	<b>212</b>	247
	<b>\$1,693</b>	\$2,051

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**NOTE J - INCOME TAXES**

The income tax provision consists of the following for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012:

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Federal			
Current	<b>\$2,664</b>	\$3,237	\$1,274
Deferred	<b>1,421</b>	377	1,566
	<b>4,085</b>	3,614	2,840
State and local			
Current	<b>918</b>	937	534
Deferred	<b>231</b>	120	475
	<b>1,149</b>	1,057	1,009
	<b>\$5,234</b>	\$4,671	\$3,849

The total income tax provision for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 differs from the amounts computed by applying the United States Federal income tax rate of 34% to income before income taxes as a result of the following:

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Computed "expected" tax expense	<b>\$4,611</b>	\$4,127	\$3,412
State and local income taxes, net of Federal income tax benefit	<b>773</b>	633	682
Tax-exempt investment earnings	<b>(110 )</b>	(133 )	(178 )
Change in uncertain tax positions, net	<b>(22 )</b>	22	(24 )
Nondeductible meals and entertainment and other	<b>(18 )</b>	22	(43 )
	<b>\$5,234</b>	\$4,671	\$3,849

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:



	<b>March</b>	March
	<b>30,</b>	31,
	<b>2014</b>	2013
Deferred tax assets		
Accrued expenses	<b>\$162</b>	\$166
Allowance for doubtful accounts	<b>49</b>	49
Deferred revenue	<b>569</b>	510
Deferred stock compensation	<b>594</b>	646
Excess of straight line over actual rent	<b>289</b>	316
Investment	<b>157</b>	-
Other	<b>129</b>	127
Total gross deferred tax assets	<b>\$1,949</b>	\$1,814
Deferred tax liabilities		
Deductible prepaid expense	<b>302</b>	223
Unrealized gain on marketable securities	<b>83</b>	202
Depreciation expense	<b>1,692</b>	321
Deductible business interruption expenses	<b>293</b>	-
Amortization	<b>287</b>	243
Total gross deferred tax liabilities	<b>2,657</b>	989
Net deferred tax (liability) asset	<b>(708 )</b>	825
Less current portion	<b>(26 )</b>	(345 )
Long-term portion	<b>\$(734 )</b>	\$480

A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. We consider the level of historical taxable income, scheduled reversal of temporary differences, tax planning strategies and projected future taxable income in determining whether a valuation allowance is warranted. Based upon these considerations, management believes that it is more likely than not that the Company will realize the benefit of its gross deferred tax asset.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties, for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012.

	<b>March 30, 2014</b>	March 31, 2013	March 25, 2012
Unrecognized tax benefits, beginning of year	<b>\$ 296</b>	\$422	\$ 318
Decreases of tax positions taken in prior years	<b>(34 )</b>	(50 )	(41 )
Increase based on tax positions taken in current year	<b>21</b>	34	26
Settlements of tax positions taken in prior years	-	(110)	-
Increase based on tax positions taken in prior years	-	-	119
Unrecognized tax benefits, end of year	<b>\$ 283</b>	\$296	\$ 422

The amount of unrecognized tax benefits at March 30, 2014, March 31, 2013 and March 25, 2012 were \$283, \$296 and \$422, respectively, all of which would impact Nathan's effective tax rate, if recognized. As of March 30, 2014 and March 31, 2013, the Company had \$329 and \$337, respectively, accrued for the payment of interest and penalties. For the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 Nathan's recognized interest and penalties in the amounts of \$43, \$46, and \$47, respectively. The Company believes that it is reasonably possible that decreases in unrecognized tax benefits of up to \$64 may be recorded within the next year.

In May 2014, Nathan's received notification from the Internal Revenue Service that it is seeking to review its tax return for the year ended March 31, 2013. The earliest tax years' that are subject to examination by taxing authorities by major jurisdictions are as follows:

<b><u>Jurisdiction</u></b>	<b><u>Fiscal Year</u></b>
Federal	2011
New York State	2011
New York City	2011

## **NOTE K – STOCKHOLDERS' EQUITY, STOCK PLANS AND OTHER EMPLOYEE BENEFIT PLANS**

### *1. Stock Incentive Plans*

On September 14, 2010, the Company's shareholders approved the Nathan's Famous, Inc. 2010 Stock Incentive Plan (the "2010 Plan"), which provides for the issuance of nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other stock-based awards to directors, officers and key employees. The Company was initially authorized to issue up to 150,000 shares of common stock under the 2010 Plan, together with any shares which had not been previously issued under the Company's previous stock option plans as of July 19, 2010 (171,000 shares), plus any shares subject to any outstanding options or restricted stock grants under the Company's previous stock option plans that were outstanding as of July 19, 2010 and that subsequently expire unexercised, or are otherwise forfeited, up to a maximum of an additional 100,000 shares. On September 13, 2012, the Company amended the 2010 Plan increasing the number of shares available for issuance by 250,000 shares. Shares to be issued under the 2010 Plan may be made available from authorized but unissued stock, common stock held by the Company in its treasury, or common stock purchased by the Company on the open market or otherwise. The number of shares issuable and the grant, purchase or exercise price of outstanding awards are subject to adjustment in the amount that the Company's Compensation Committee considers appropriate upon the occurrence of certain events, including stock dividends, stock splits, mergers, consolidations, reorganizations, recapitalizations, or other capital adjustments. In the event that the Company issues restricted stock awards pursuant to the 2010 Plan, each share of restricted stock would reduce the amount of available shares for issuance by either 3.2 shares for each share of restricted stock granted or 1 share for each share of restricted stock granted. As of March 30, 2014, there were up to 318,500 shares available to be issued for future option grants or up to 219,844 shares of restricted stock that may be granted under the 2010 Plan.

In general, options granted under the Company's stock incentive plans have terms of five or ten years and vest over periods of between three and five years. The Company has historically issued new shares of common stock for options that have been exercised and used the Black-Scholes option valuation model to determine the fair value of options granted at the grant date.

During the fiscal year ended March 30, 2014, the Company granted 25,000 shares of restricted stock at a fair value of \$49.80 per share representing the closing price on the date of grant, which will be fully vested five years from the date of grant. The restrictions on the shares lapse ratably over a five-year period on the annual anniversary of the date of grant. The compensation expense related to this restricted stock award is expected to be \$1,245 and will be recognized, commencing on the grant date, over the next five years.

During the fiscal year ended March 31, 2013, the Company granted 50,000 shares of restricted stock at a fair value of \$29.29 per share representing the closing price on the date of grant, which will be fully vested four years from the date of grant. Upon grant, 10,000 shares vested immediately, and the restrictions on the remaining 40,000 shares lapse ratably over a four-year period on the annual anniversary of the date of grant.

During the fiscal ended March 25, 2012, the Company granted options to purchase 177,500 shares at an exercise price of \$17.75 per share, all of which expire five years from the date of grant. All such stock options vest ratably over a four-year period commencing June 6, 2011.

The weighted-average option fair values, as determined using the Black-Scholes option valuation model, and the assumptions used to estimate these values for stock options granted were as follows:

	March 25,	
	2012	
Weighted-average option fair values	\$5.039	
Expected life (years)	5.0	
Interest rate	1.60	%
Volatility	28.90	%
Dividend yield	0	%

The expected dividend yield is based on historical and projected dividend yields. The Company estimates volatility based primarily on historical monthly price changes of the Company's stock equal to the expected life of the option. The risk free interest rate is based on the U.S. Treasury yield in effect at the time of the grant. The expected option term is the number of years the Company estimates the options will be outstanding prior to exercise based on expected employment termination behavior. 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:

	<b>March 30,</b>	March 31,	March 25,
	<b>2014</b>	2013	2012
Stock options	<b>\$ 224</b>	\$ 224	\$ 274
Restricted stock	<b>497</b>	403	-
	<b>\$ 721</b>	\$ 627	\$ 274

The tax benefit on stock-based compensation expense was \$286, \$251 and \$101 for the years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively. As of March 30, 2014, there was \$2,075 of unamortized compensation expense related to stock-based incentive awards. The Company expects to recognize this expense over approximately one year and nine months, which represents the weighted average remaining requisite service periods for such awards.

A summary of the status of the Company's stock options at March 30, 2014, March 31, 2013 and March 25, 2012 and changes during the fiscal years then ended is presented in the tables below:

	2014		2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding – beginning of year	429,500	\$ 13.29	622,000	\$ 13.21	470,000	\$ 11.29
Granted	-	-	-	-	177,500	17.75
Expired	-	-	-	-	-	-
Exercised	(150,000)	9.71	(192,500)	13.04	(25,500 )	9.36
Options outstanding - end of year	279,500	\$ 15.22	429,500	\$ 13.29	622,000	\$ 13.21
Options exercisable - end of year	190,750	\$ 14.04	296,375	\$ 11.29	444,500	\$ 11.40
Weighted-average fair value of options granted					177,500	\$ 5.04

During the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, options to purchase 150,000, 192,500 and 25,500 shares were exercised which aggregated proceeds of \$944, \$389 and \$65, respectively, to the Company. The aggregate intrinsic values of the stock options exercised during the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 was \$6,038, \$3,523 and \$289 respectively.

The following table summarizes information about outstanding stock options at March 30, 2014:

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	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at March 30, 2014	<b>279,500</b>	<b>\$ 15.22</b>	<b>2.07</b>	<b>\$ 9,381</b>
Options exercisable at March 30, 2014	<b>190,750</b>	<b>\$ 14.04</b>	<b>2.02</b>	<b>\$ 6,627</b>

Exercise prices range from \$5.62 to \$17.75

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*Restricted stock:*

Transactions with respect to restricted stock for the fiscal year ended March 30, 2014 are as follows:

	Shares	Average Grant-Date Fair value Per share
Unvested restricted stock at March 31, 2013	<b>40,000</b>	<b>\$29.29</b>
Granted	<b>25,000</b>	<b>\$49.80</b>
Vested	<b>(10,000)</b>	<b>\$29.29</b>
Unvested restricted stock at March 30, 2014	<b>55,000</b>	<b>\$38.61</b>

The aggregate fair value of restricted stock vested during the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 was \$533, \$293 and \$0, respectively.

## 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 ("triggering event"). Upon such triggering 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 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 March 30, 2014, the Company has reserved 10,522,052 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*

On December 13, 2013, the Company and Mutual Securities, Inc. ("MSI") entered into an agreement pursuant to which MSI has been authorized on the Company's behalf to purchase shares of the Company's common stock, \$.01 par value having a value of up to an aggregate of five million dollars (\$5,000), which purchases could commence on December 23, 2013. The agreement with MSI 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 previously announced stock purchase plans described below and provides for the purchase of up to an aggregate of 800,000 shares.

Through March 30, 2014, Nathan's purchased a total of 4,610,026 shares of common stock at a cost of approximately \$54,884 pursuant to the various stock repurchase plans previously authorized by the Board of Directors. Of these repurchased shares, 30,463 shares were repurchased at a cost of \$1,486 during the year ended March 30, 2014.

On November 9, 2009, Nathan's Board of Directors authorized its sixth stock repurchase plan for the purchase of up to 500,000 shares of its common stock on behalf of the Company. On February 1, 2011, Nathan's Board of Directors increased the authorization to purchase its common stock by an additional 300,000 shares. The Company has repurchased 511,067 shares at a cost of \$11,279 under the sixth stock repurchase plan through March 30, 2014, an aggregate of 288,933 shares are available to be purchased. Purchases under the existing stock repurchase plan 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 the stock repurchase plan.

On December 1, 2011, the Company's Board of Directors authorized the commencement of a modified dutch tender offer to repurchase up to 500,000 shares of its common stock at a price of not less than \$20.00 nor greater than \$22.00 per share. The tender offer expired on January 12, 2012.

#### 4. *Employment Agreements*

Effective January 1, 2007, Howard M. Lorber, previously Chairman of the Board and Chief Executive Officer, assumed the newly-created position of Executive Chairman of the Board of Nathan's and Eric Gatoff, previously Vice President and Corporate Counsel, became Chief Executive Officer of Nathan's.

In connection with the foregoing, the Company entered into an employment agreement with each of Messrs. Lorber (as amended, the "Lorber Employment Agreement") and Gatoff (as amended, the "Gatoff Employment Agreement"). Under the terms of the Lorber Employment Agreement, Mr. Lorber will serve as Executive Chairman of the Board from January 1, 2007 until December 31, 2012, unless his employment is terminated in accordance with the terms of the Lorber Employment Agreement. On November 1, 2012, the Company amended its employment agreement with Mr. Lorber, extending the term of the employment agreement to December 31, 2017 and increasing the base compensation of Mr. Lorber to \$600 per annum. In addition, Mr. Lorber received a grant of 50,000 shares of restricted stock subject to vesting as provided in a Restricted Stock Agreement between Mr. Lorber and the Company. Mr. Lorber will not receive a contractually-required bonus. The Lorber Employment Agreement provides for a three-year consulting period after the termination of employment during which Mr. Lorber will receive a consulting fee of \$200 per year in exchange for his agreement to provide no less than 15 days of consulting services per year, provided, Mr. Lorber is not required to provide more than 50 days of consulting services per year.

The Lorber Employment Agreement provides Mr. Lorber with the right to participate in employment benefits offered to other Nathan's executives. During and after the contract term, Mr. Lorber is subject to certain confidentiality, non-solicitation and non-competition provisions in favor of the Company.

In the event that Mr. Lorber's employment is terminated without cause, he is entitled to receive his salary and bonus for the remainder of the contract term. The Lorber Employment Agreement further provides that in the event there is a change in control, as defined in the agreement, Mr. Lorber has the option, exercisable within one year after such event, to terminate the agreement. Upon such termination, he has the right to receive a lump sum cash payment equal to the greater of (A) his salary and annual bonuses for the remainder of the employment term (including a prorated bonus for any partial fiscal year), which bonus shall be equal to the average of the annual bonuses awarded to him during the three fiscal years preceding the fiscal year of termination; or (B) 2.99 times his salary and annual bonus for the fiscal year immediately preceding the fiscal year of termination, in each case together with a lump sum cash payment equal to the difference between the exercise price of any exercisable options having an exercise price of less than the then current market price of the Company's common stock and such then current market price. In addition, Nathan's will provide Mr. Lorber with a tax gross-up payment to cover any excise tax due.

In the event of termination due to Mr. Lorber's death or disability, he is entitled to receive an amount equal to his salary and annual bonuses for a three-year period, which bonus shall be equal to the average of the annual bonuses awarded to him during the three fiscal years preceding the fiscal year of termination.

Under the terms of the Gatoff Employment Agreement, Mr. Gatoff initially served as Chief Executive Officer from January 1, 2007 until December 31, 2008, which period automatically extends for additional one-year periods unless either party delivers notice of non-renewal no less than 180 days prior to the end of the term then in effect. Consequently, the Gatoff Employment Agreement is expected to be extended through December 31, 2014, based on the original terms, and no non-renewal notice has been given.

Pursuant to the agreement, Mr. Gatoff will receive a base salary, currently \$350, and an annual bonus based on his performance measured against the Company's financial, strategic and operating objectives as determined by the Compensation Committee. The Gatoff Employment Agreement provides for an automobile allowance and the right of Mr. Gatoff to participate in employment benefits offered to other Nathan's executives. During and after the contract term, Mr. Gatoff is subject to certain confidentiality, non-solicitation and non-competition provisions in favor of the Company. On June 4, 2013, Mr. Gatoff received a grant of 25,000 shares of restricted stock at a fair value of \$49.80 per share representing the closing price on the date of grant, subject to vesting as provided in a Restricted Stock Agreement between Mr. Gatoff and the Company. The compensation expense related to this restricted stock award is expected to be \$1,245 and will be recognized, commencing of the grant date, over the next five years.

The Company and its President and Chief Operating Officer entered into an employment agreement on December 28, 1992 for a period commencing on January 1, 1993 and ending on December 31, 1996. The employment agreement automatically extends for successive one-year periods unless notice of non-renewal is provided in accordance with the agreement. Consequently, the employment agreement has been extended annually through December 31, 2014, based on the original terms, and no non-renewal notice is expected to be given. The agreement provides for annual compensation, currently \$289, plus certain other benefits. In November 1993, the Company amended this agreement to include a provision under which the officer has the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

Effective May 31, 2007, the Company and its Executive Vice President entered into a new employment agreement which provided for annual compensation of \$210 plus certain other benefits and automatically renews annually unless 180 days prior written notice is given to the employee. In connection with the contemplated retirement of the Executive Vice President, effective February 12, 2013, the Company and the Executive Vice President agreed to amend the employment contract to extend the expiration of the employment term from September 30, 2013 until February 12, 2014 and the Company purchased his 67,619 shares of the Company's common stock, \$.01 par value at a purchase price of \$36.87 per share which was the closing price of the Company's common stock as reported on the Nasdaq Global Market on February 13, 2013. The amendment to the Employment Agreement further provided that he will serve as a consultant to the Company from February 13, 2014 until February 12, 2015 and thereafter, at the discretion of the Company, he may serve as a consultant for an additional one year.

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The Company and one employee of Nathan's entered into a change of control agreement effective May 31, 2007 for annual compensation of \$136 per year. The agreement additionally includes a provision under which the employee has the right to terminate the agreement and receive payment equal to approximately three times his annual compensation upon a change in control, as defined.

Each employment agreement terminates upon death or voluntary termination by the respective employee or may be terminated by the Company on up to 30-days' prior written notice by the Company in the event of disability or "cause," as defined in each agreement.

#### 5. *Defined Contribution and Union Pension Plans*

The Company has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all nonunion employees over age 21, who have been employed by the Company for at least one year. Employees may contribute to the plan, on a tax-deferred basis, up to 20% of their total annual salary. Historically, the Company has matched contributions at a rate of \$.25 per dollar contributed by the employee on up to a maximum of 3% of the employee's total annual salary. Employer contributions for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012 were \$34, \$31 and \$30, respectively.

The Company participates in a noncontributory, multi-employer, defined benefit pension plan (the "Union Plan") covering substantially all of the Company's union-represented employees. The risks of participating in the Union Plan are different from a single-employer plan in the following aspects (a) assets contributed to the Union Plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if the Company chooses to stop participating in the Union Plan, the Company may be required to pay the Union Plan an amount based on the underfunded status of the Union Plan, referred to as a withdrawal liability. The Company has no plans or intentions to stop participating in the plan as of March 30, 2014 and does not believe that there is a reasonable possibility that a withdrawal liability will be incurred. Contributions to the Union Plan were \$10, \$16 and \$19 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

#### 6. *Other Benefits*

The Company provides, on a contributory basis, medical benefits to active employees. The Company does not provide medical benefits to retirees.

**NOTE L - COMMITMENTS AND CONTINGENCIES**

*1. Commitments*

The Company's operations are principally conducted in leased premises. The leases generally have initial terms ranging from 5 to 20 years and usually provide for renewal options ranging from 5 to 20 years. Most of the leases contain escalation clauses and common area maintenance charges (including taxes and insurance).

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As of March 30, 2014, the Company had non-cancelable operating lease commitments, net of certain sublease rental income, as follows:

	Lease commitments	Sublease income	Net lease commitments
2015	\$ 1,785	\$ 404	\$ 1,381
2016	1,657	270	1,387
2017	1,682	254	1,428
2018	1,711	262	1,449
2019	1,692	266	1,426
Thereafter	7,760	1,617	6,143
	\$ 16,287	\$ 3,073	\$ 13,214

Aggregate rental expense, net of sublease income, under all current leases amounted to \$1,391, \$1,102 and \$1,248 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively. Sublease rental income was \$265, \$353 and \$229 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

Contingent rental payments on building leases are typically made based on the percentage of gross sales of the individual restaurants that exceed predetermined levels. The percentage of gross sales to be paid and related gross sales level vary by unit. Contingent rental expense, which is inclusive of common area maintenance charges, was approximately \$454, \$399 and \$151 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

At March 30, 2014, the Company leases three sites which it in turn subleases to franchisees, which expire on various dates through 2027 exclusive of renewal options. The Company remains liable for all lease costs when properties are subleased to franchisees.

At March 31, 2013, Nathan's had open purchase commitments for hot dogs at a total cost of \$5,000 which have been purchased between April and July 2013. The hot dogs purchased represented approximately 13.4% of Nathan's actual usage during the fiscal 2014 period. At March 30, 2014, Nathan's fulfilled its obligation pursuant to this purchase commitment and has not entered into any new purchase commitments during the fiscal 2014 period. However, Nathan's may enter into additional purchase commitments in the future as favorable market conditions become available.



At March 31, 2013, Nathan's had open construction contracts of approximately \$2,000 in connection with the rebuilding of the Coney Island restaurant. At March 30, 2014, all open construction contracts had been completed and all of these contracts had been paid or have been accrued to be paid.

## *2. Legal Proceedings*

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.

The Company was also involved in the following legal proceeding:

The Company was a party to a License Agreement with SMG, Inc. (“SMG”) dated as of February 28, 1994, as amended (the “License Agreement”) pursuant to which: (i) SMG acts as the Company’s exclusive licensee for the manufacture, distribution, marketing and sale of packaged Nathan’s Famous frankfurter product at supermarkets, club stores and other retail outlets in the United States; and (ii) the Company has the right, but not the obligation, to require SMG to produce frankfurters for the Nathan’s Famous restaurant system and Branded Product Program.

On July 31, 2007, the Company provided notice to SMG that the Company has elected to terminate the License Agreement, effective July 31, 2008 (the “Termination Date”), due to SMG’s breach of certain provisions of the License Agreement. SMG has disputed that a breach has occurred and has commenced, together with certain of its affiliates, an action in state court in Illinois seeking, among other things, a declaratory judgment that SMG did not breach the License Agreement. The Company filed its own action on August 2, 2007, in New York State court seeking a declaratory judgment that SMG has breached the License Agreement and that the Company has properly terminated the License Agreement. On January 23, 2008, the New York court granted SMG’s motion to dismiss the Company’s case in New York on the basis that the dispute was already the subject of a pending lawsuit in Illinois. The Company answered SMG’s complaint in Illinois and asserted its own counterclaims which seek, among other things, a declaratory judgment that SMG did breach the License Agreement and that the Company has properly terminated the License Agreement. On July 31, 2008, SMG and Nathan’s entered into a Stipulation pursuant to which Nathan’s agreed that it would not effectuate the termination of the License Agreement on the grounds alleged in the present litigation until such litigation has been successfully adjudicated, and SMG agreed that in such event, Nathan’s shall have the option to require SMG to continue to perform under the License Agreement for an additional period of up to six months to ensure an orderly transition of the business to a new licensee/supplier. On June 30, 2009, SMG and Nathan’s each filed motions for summary judgment. Both motions for summary judgment were ultimately denied on February 25, 2010.

On January 28, 2010, SMG filed a motion for leave to file a Second Amended Complaint and Amended Answer, which sought to assert new claims and affirmative defenses based on Nathan’s alleged breach of the parties’ License Agreement in connection with the manner in which Nathan’s profits from the sale of its proprietary seasonings to SMG. On February 25, 2010, the court granted SMG’s motion for leave, and its Second Amended Complaint and Amended Answer were filed with the court. On March 29, 2010, Nathan’s filed an answer to SMG’s Second Amended Complaint, which denied substantially all of the allegations in the complaint. On September 17, 2010, SMG filed a motion for summary judgment with respect to the claims relating to the sale of Nathan’s proprietary seasonings to SMG. On October 5, 2010, Nathan’s filed an opposition to SMG’s motion for summary judgment, and itself cross-moved for summary judgment. A trial on the claims relating to Nathan’s termination of the License Agreement took place between October 6 and October 13, 2010. Oral argument on the claims relating to the sale of Nathan’s proprietary seasonings took place prior to the start of the trial. On October 13, 2010, an Order was entered with the Court denying Nathan’s cross-motion and granting SMG’s motion for summary judgment with respect to SMG’s claims relating to the sale of Nathan’s proprietary seasonings to SMG. On December 17, 2010, the Court ruled that Nathan’s was not entitled to terminate the License Agreement. On January 19, 2011, the parties submitted an agreed upon order which, among other things, assessed damages against Nathan’s of approximately \$4.9 million inclusive of pre-judgment interest, which has been accrued in the accompanying consolidated financial statements. The final

judgment was entered on February 4, 2011. On March 4, 2011, Nathan's filed a notice of appeal seeking to appeal the final judgment. In order to secure the final judgment pending an appeal, on March 31, 2011, Nathan's entered into a Security Agreement with SMG and Blocked Deposit Account Agreement with SMG and Citibank, N.A. On April 7, 2011, the Court entered a stipulation and order which granted a stay of enforcement of the Judgment.

Nathan's filed an appellate brief with the Appellate Court of Illinois, First Judicial District, on August 8, 2011. In response, SMG filed an opposition appellate brief on October 21, 2011. Nathan's filed a reply brief on November 14, 2011. On December 11, 2012, the Court heard oral arguments. On January 25, 2013, the Appellate Court affirmed the trial court's ruling. On February 15, 2013, Nathan's filed a Petition for Re-hearing which was denied on February 27, 2013. On April 3, 2013, Nathan's filed a Petition for Leave to Appeal with the Illinois Supreme Court. Subsequently, we were advised that the Illinois Supreme Court denied the Petition for Leave of Appeal. On July 24, 2013, \$6,009, inclusive of all post-judgment interest, was withdrawn by SMG from the blocked account, in full satisfaction of this matter.

### *3. Guaranty*

On December 1, 2009, a wholly-owned subsidiary of the Company executed a Guaranty of Lease (the "Guaranty") in connection with its re-franchising of a restaurant located in West Nyack, New York. The Guaranty could be called upon in the event of a default by the tenant/franchisee. The Guaranty extends through the fifth Lease Year, as defined in the lease, and shall not exceed an amount equal to the highest amount of the annual minimum rent, percentage rent and any additional rent payable pursuant to the lease and reasonable attorney's fees and other costs. Nathan's has recorded a liability of \$193 in connection with the Guaranty, which does not include potential real estate tax increases and attorney's fees and other costs as these amounts are not reasonably determinable at this time. In connection with the Nathan's Franchise Agreement, Nathan's has received a personal guaranty from the franchisee for all obligations under the Guaranty. To date, Nathan's has not been required to make any payments pursuant to the Guaranty.

### *4. Hurricane Sandy*

On October 29, 2012, Superstorm Sandy struck the Northeastern United States, which forced the closing of all of the Company-owned restaurants. Seventy-eight franchised restaurants, including 18 Branded Menu locations, were closed for varying periods of time, one of which remains closed. Our Company-owned restaurant in Oceanside, New York was closed for approximately two weeks. Our flagship Coney Island restaurant and our Coney Island Boardwalk restaurant were closed as a result of the storm. The Coney Island Boardwalk restaurant sustained minor damage and re-opened on March 18, 2013. The Coney Island restaurant incurred significant damage and re-opened on May 20, 2013. As a result of these damages, the Company incurred actual losses through March 31, 2013, of approximately \$1,340, inclusive of amounts written off of \$449 related to destroyed or damaged property and equipment and \$42 of unsalable inventories.

As of March 30, 2014, the Company settled the property damage claim with its insurers and received payments of approximately \$3,400, net of fees, from our insurer and used these proceeds towards the rebuilding of the Coney Island restaurant. In connection with the settlement of the property and casualty loss, the Company recognized a gain of approximately \$2,774 during the quarter ended June 30, 2013.

As of March 30, 2014, the Company had an outstanding claim under our business interruption insurance policy which exceeded the amounts that had initially been recorded, which are included in accounts and other receivables in the accompanying balance sheet, for reimbursable on-going business expenses incurred while the restaurant was closed. In April 2014, Nathan's settled and received payment on its business interruption claim for \$718, net of fees, which fully satisfied the accounts and other receivables recorded as of March 30, 2014.

**NOTE M - RELATED PARTY TRANSACTIONS**

An accounting firm of which Charles Raich, who serves on Nathan's Board of Directors, serves as Managing Partner, received ordinary tax preparation and other consulting fees of \$130, \$136 and \$127 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

A firm to which Mr. Lorber is as an investor (and, prior to January 2012, a consultant), and the firm's affiliates, received ordinary and customary insurance commissions aggregating approximately \$24, \$25 and \$26 for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012, respectively.

**NOTE N - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>
<b><u>Fiscal Year 2014</u></b>				
Total revenues	<b>\$23,401</b>	<b>\$23,662</b>	<b>\$18,533</b>	<b>\$17,331</b>
Gross profit (a)	<b>3,475</b>	<b>4,513</b>	<b>2,457</b>	<b>2,004</b>
Net income	<b>3,354</b>	<b>2,648</b>	<b>1,107</b>	<b>1,218</b>
Per share information				
Net income per share				
Basic (b)	<b>\$.76</b>	<b>\$.59</b>	<b>\$.25</b>	<b>\$.27</b>
Diluted (b)	<b>\$.73</b>	<b>\$.57</b>	<b>\$.24</b>	<b>\$.27</b>
Shares used in computation of net income per share				
Basic (b)	<b>4,415,000</b>	<b>4,460,000</b>	<b>4,466,000</b>	<b>4,459,000</b>
Diluted (b)	<b>4,588,000</b>	<b>4,625,000</b>	<b>4,622,000</b>	<b>4,594,000</b>
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>
<b><u>Fiscal Year 2013</u></b>				
Total revenues	<b>\$20,182</b>	<b>\$21,360</b>	<b>\$15,025</b>	<b>\$14,976</b>
Gross profit (a)	<b>3,420</b>	<b>4,695</b>	<b>2,044</b>	<b>1,623</b>
Net income	<b>2,006</b>	<b>2,845</b>	<b>1,062</b>	<b>1,555</b>
Per share information				
Net income per share				
Basic (b)	<b>\$.46</b>	<b>\$.65</b>	<b>\$.24</b>	<b>\$.35</b>
Diluted (b)	<b>\$.44</b>	<b>\$.62</b>	<b>\$.23</b>	<b>\$.34</b>
Shares used in computation of net income per share				
Basic (b)	<b>4,368,000</b>	<b>4,407,000</b>	<b>4,414,000</b>	<b>4,411,000</b>
Diluted (b)	<b>4,531,000</b>	<b>4,604,000</b>	<b>4,612,000</b>	<b>4,603,000</b>

(a) Gross profit represents the difference between sales and cost of sales.

The sum of the quarters may not equal the full year per share amounts included in the accompanying consolidated statements of earnings due to the effect of the weighted average number of shares outstanding during the fiscal years as compared to the quarters.

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Nathan's Famous, Inc. and Subsidiaries

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**

March 30, 2014, March 31, 2013, and March 25, 2012

(in thousands)

COL. A Description	COL. B Balance at beginning of period	COL. C Additions charged to costs and expenses	Additions charged to other accounts	COL. D Deductions	COL. E Balance at end of period
<b><u>Fifty-two weeks ended March 30, 2014</u></b>					
<b>Allowance for doubtful accounts - accounts receivable</b>	<b>\$130</b>	<b>\$21</b>	<b>\$320 (a)</b>	<b>\$38 (b)</b>	<b>\$433</b>
Fifty-three weeks ended March 31, 2013					
Allowance for doubtful accounts - accounts receivable	\$138	\$15	\$5 (a)	\$28 (b)	\$130
Fifty-two weeks ended March 25, 2012					
Allowance for doubtful accounts - accounts receivable	\$62	\$86	\$-	\$10 (b)	\$138

(a) Uncollectible  
marketing  
fund

contributions.  
Uncollectible  
(b) amounts  
written off.

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