

NATHANS FAMOUS INC
Form 10-K
June 08, 2018

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 25, 2018

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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Jericho Plaza, Jericho, New York	11753
(Address of principal executive offices)	(Zip Code)

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

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

Common Stock – par value \$.01	Nasdaq Global Market
(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. ☒

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 24, 2017 - was approximately \$200,215,000, which value, solely for the purposes of this calculation excludes shares held by the registrant’s officers and directors. Such exclusion shall not be deemed a determination by registrant that all such individuals are, in fact, affiliates of the registrant.

As of June 5, 2018, there were outstanding 4,187,539 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 2018 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

This Form 10-K contains “forward-looking statements” that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes”, “expects”, “projects”, “may”, “would”, “should”, “intends”, “plans”, “estimates”, “anticipates” or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements contained in this Form 10-K are based upon information available to us on 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. References to the fiscal 2018 period mean the fiscal year ended March 25, 2018 and references to the fiscal 2017 period mean the fiscal year ended March 26, 2017. In addition, references to the 2025 Notes or the 2025 Senior Secured Notes refer to the \$150,000,000 6.625% Senior Secured Notes due 2025 and references to the 2020 Notes or the 2020 Senior Secured Notes refer to the \$135,000,000 10.000% Senior Secured Notes which were repaid in full on November 15, 2017.

We are a leading branded licensor, wholesaler and retailer of products marketed under our Nathan’s Famous brand, including our popular Nathan’s World Famous Beef Hot Dogs. What began as a nickel hot dog stand on Coney Island in 1916 has evolved into a highly recognized brand throughout the United States and the world. Our innovative business model seeks to maximize the points of distribution for and the consumption of Nathan’s World Famous Beef Hot Dogs, crinkle-cut French fries and our other products across a wide-range of grocery retail and foodservice formats. Our products are currently marketed for sale in approximately 58,000 locations, including supermarkets, mass merchandisers and club stores, selected foodservice locations and our Company-owned and franchised restaurants throughout the United States and in sixteen foreign territories and countries. The Company considers itself to be in the foodservice industry, and has pursued co-branding initiatives within other foodservice environments. Our major channels of distribution are as follows:

Our licensing program contracts with certain third parties to manufacture, distribute, market and sell a broad variety of Nathan's Famous branded products including our hot dogs, sausage and corned beef products, frozen French fries and additional products through retail grocery channels and club stores throughout the United States. As of March 25, 2018, packaged Nathan's World Famous Beef Hot Dogs continued to be sold in approximately 43,000 supermarkets, mass merchandisers and club stores including Kroger, Publix, ShopRite, Walmart, Target, Sam's Club, Costco and BJ's Wholesale Club located in all 50 states. We earn revenue through royalties on products sold by our licensees.

The Branded Product Program ("BPP") provides foodservice operators in a variety of venues the opportunity to capitalize on our *Nathan's Famous* brand by marketing and selling certain *Nathan's Famous* hot dog products. We believe that the program has broad appeal to foodservice operators due to its flexibility to deliver our products to a wide variety of distribution channels. In conjunction with the program, operators are granted a limited use of the *Nathan's Famous* trademark, as well as Nathan's point of purchase materials. Unlike our licensing and franchise programs, we do not generate revenue from royalties, but rather by selling our hot dog products either directly to foodservice operators or to various foodservice distributors who resell the products to foodservice operators.

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 franchised restaurant operations are comprised predominately of our *Nathan's Famous* concept, which features a menu consisting of *Nathan's World Famous Beef Hot Dogs*, crinkle-cut French fries and beverages as well as other items. We earn royalties on restaurant sales at these franchise locations. In addition to our traditional franchised restaurants, we enable approved 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 through our Branded Menu Program ("BMP"). We earn royalties on Nathan's products purchased by our BMP franchise operators.

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. Currently, we operate seven Arthur Treacher's BMP locations.

Our brand is widely recognized by virtue of our long history and broad geographic footprint, which allows us to enjoy high consumer awareness in the United States and abroad and the ability to grow in markets and channels where the brand is known but has not yet achieved optimal market penetration. We believe that our highly visible brand and reputation for high quality products have allowed us to expand our food offerings beyond our signature hot dogs and command a price premium across our portfolio of products. Over time, we have expanded menu options so that our Company-owned restaurants and franchisees can 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. We have also developed a portfolio of licensed products for sale at retail and grocery locations. We seek to maintain the same quality standard with each of our supplemental menu items and licensed products as we do with our core hot dog and French fries menu. We intend to continue to leverage our highly recognized global brand and iconic products to introduce new products into our existing distribution network, open new points of distribution and grow our overall sales. We believe that 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.

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 grow product sales throughout our various channels of distribution. In this regard, we have concentrated our efforts on:

expanding the number of foodservice locations and distributors 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, including the Branded Menu Program, as well as continuing to develop master

franchising programs in foreign countries;

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

continuing to profitably operate our iconic Company-owned restaurants, and opportunistically invest in Company-owned restaurant expansion.

As a result of our efforts to expand the Nathan's Famous brand, as of March 25, 2018:

our Nathan's Famous restaurant system consisted of 276 franchised units and five Company-owned units (including one seasonal unit) located in 20 states and 12 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;

Nathan's Famous packaged hot dogs and other products were offered for sale within approximately 43,000 supermarkets and club stores in all 50 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 royalties from our retail licensing activities and the royalties, fees and other sums we earn from our restaurant franchising activities.

We plan to expand the scope and market penetration of our Branded Product Program, 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, 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 Corp. 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. 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 of 281 Nathan's Famous restaurants, which have been co-branded with Arthur Treacher's and Kenny Rogers Roasters menu items in 35 and 16 units, respectively.

Nathan's Famous Concept and Menus

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 since our inception over 100 years ago 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 variations; 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 carts, trucks and modular units. Our smaller units may not have customer seating areas, although they may often share seating areas with other fast food or quick service outlets in food court settings. Other units generally provide seating for 45 to 125 customers. Carts, trucks, 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.

Franchise Operations

At March 25, 2018, our Nathan's franchise system, including our Branded Menu Program, consisted of 276 units operating in 20 states and 12 foreign countries.

Our franchise system includes among its 142 franchisees such well-known companies as HMS Host, Compass Group USA, Inc., Gourmet Dining Services, Inc., CulinArt, National Amusements, Inc., Hershey Entertainment & Resorts Company, and Bruster's Real Ice Cream. 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 the fiscal 2018 period, no single franchisee accounted for over 10% of our consolidated revenue. At March 25, 2018, HMS Host operated 13 franchised outlets, including two units at airports, 10 units within highway travel plazas and one unit within a mall. Additionally, at March 25, 2018, (i) HMS Host operated 48 locations featuring Nathan's products pursuant to our Branded Product Program, (ii) 35 mobile carts were operating in New York, NY, and (iii) 16 Bruster's Real Ice Cream shops and four Kmart locations were 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 individual restaurant and 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 the fiscal 2018 period, franchisees opened 40 new Nathan's Famous franchised units in the United States (including 19 Branded Menu Program units), and 16 units internationally.

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. With respect to our international development, we generally 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 may 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 based on the operator's sales and the operator is not required to report sales to Nathan's as required by the standard franchise arrangements. Instead, 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 25, 2018, the Nathan's Branded Menu Program was comprised of 122 outlets, which included 35 units operated by Move Systems, Inc. in New York, NY and 16 Nathan's Famous Branded Products within Bruster's Real Ice Cream shops, a premium ice cream franchisor headquartered in western Pennsylvania and four locations operating within K-Mart.

Arthur Treacher's

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." Full menu restaurants emphasize the preparation and sale of batter-dipped fried seafood and chicken dishes served in a quick-service environment.

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"). Pursuant to the license, 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 25, 2018, Arthur Treacher's, as a co-brand, was included within 35 Nathan's Famous restaurants. 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. We may seek to expand the opportunity for an Arthur Treacher's Branded Menu Program in the future. Currently we operate seven Arthur Treacher's BMP locations.

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 restaurants existing at April 23, 2008, where the Kenny Rogers products had already been introduced. As of March 25, 2018, the Kenny Rogers brand was being sold within 16 Nathan's restaurants.

Company-owned Nathan's Restaurant Operations

As of March 25, 2018, we operated five Company-owned Nathan's units, including one seasonal location, in New York. Since 2012, we have invested significantly in our Company-owned restaurants. In March 2012, we relocated our seasonal Coney Island Boardwalk restaurant to a more prominent location. 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 was down-sized, relocated and re-opened on November 18, 2013 pursuant to its new lease, and our Oceanside restaurant was also relocated and downsized and re-opened on March 25, 2015. Four of our Company-owned restaurants range in size from approximately 2,650 square feet to 10,000 square feet 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. 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. We have entered into an agreement to sell the Company-owned restaurant, including the real estate, in Bay Ridge, Brooklyn, NY in July 2018, which we expect to continue operating through September 2018, before it ceases operations.

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 franchise restaurants and generally attain sales levels higher than the average of our newer franchise restaurants. The non-core menu items at the Company-owned restaurants, tend to have lower margins than the core menu.

International Development

As of March 25, 2018, Nathan's Famous franchisees operated 53 units in 12 foreign countries. During the fiscal 2018 period we opened 16 new units internationally, including our first three units in Latvia pursuant to a new development agreement. Additionally, we opened four units in Russia, three units each in Kazakhstan and Australia, and one unit each in Malaysia, Philippines and Dominican Republic, pursuant to existing development agreements.

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 25, 2018, March 26, 2017 and March 27, 2016: See Item 1A-“Risk Factors.”

	March 25, 2018	March 26, 2017	March 27, 2016
Total revenue	\$6,540,000	\$6,186,000	\$5,235,000
Gross profit (a)	\$2,264,000	\$2,591,000	\$1,655,000

(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 25, 2018 and their geographical distribution:

Domestic Locations	Company	Franchise (1)	Total (1)
Arizona	-	1	1
California	-	1	1
Connecticut	-	4	4
Florida	-	20	20
Georgia	-	8	8
Illinois	-	1	1
Indiana	-	1	1
Kentucky	-	2	2
Maryland	-	3	3
Massachusetts	-	7	7
Missouri	-	1	1
Nevada	-	11	11
New Jersey	-	29	29
New York	5	109	114
North Carolina	-	2	2
Ohio	-	3	3
Pennsylvania	-	11	11
Rhode Island	-	2	2
South Carolina	-	6	6
Texas	-	1	1
Domestic Subtotal	5	223	228

International Locations Company Franchise (1) Total (1)

Australia	-	9	9
Dominican Republic	-	6	6
Egypt	-	1	1
Jamaica	-	2	2
Kazakhstan	-	4	4
Kyrgyzstan	-	5	5
Latvia	-	2	2
Malaysia	-	4	4
Panama	-	4	4
Philippines	-	2	2
Russia	-	13	13
Turkey	-	1	1
International Subtotal	-	53	53
Grand Total	5	276	281

(1) Amounts include 122 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 primarily Nathan's Famous hot dog products. We believe that the program is unique in its flexibility and broad appeal. Hot dogs are offered in a variety of sizes and additional specialty products are available to satisfy consumer needs. 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 resell the products to specific operators.

As of March 25, 2018, the Branded Product Program distributed product in all 50 states, the District of Columbia, Puerto Rico, Canada, the U.S. Virgin Islands, Guam and Mexico. During the fiscal 2018 period, we continued to open many new locations offering Nathan's branded products. Today, Nathan's World Famous Beef Hot Dogs are being offered in national restaurant chains such as Auntie Anne's, Hot Dog On A Stick, Johnny Rockets, national movie theater chains such as Regal Entertainment and National Amusements, casino hotels such as Foxwoods Casino in Connecticut, the Grand Casino in Minnesota and convenience store chains such as Race Trac, Holiday Station stores, and the Cinemex movie chain in Mexico. The Branded Products Program also distributes product 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, Brooklyn Nets, New York Islanders, Dallas Cowboys, Miami Marlins, Washington Nationals and Colorado Rockies.

Additionally, our products are offered in numerous other foodservice operations including cafeterias, snack bars and vending machines located in many different types of foodservice outlets and venues, including airports, highway travel plazas, colleges and universities, gas and convenience stores, military installations and Veteran's Administration hospitals throughout the country.

Nathan's expects to continue to seek out and evaluate a variety of alternative environments 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 licensing program with John Morrell & Co. John Morrell & Co. brings superior sales and marketing resources to our brand through its national scale, broad distribution platform, strong retail relationships and research and development infrastructure capable of developing and introducing attractive new products. As a result of our partnership with John Morrell & Co., we expect *Nathan's Famous* products to further penetrate the grocery, mass merchandising and club channels by expanding

points of distribution in targeted, underpenetrated regions and through the development of new products. John Morrell & Co. expects to leverage this relationship with continued full-scale marketing efforts, both inside and outside of stores, highlighted by exciting customer events and brand representation and support at numerous Hot Dog Eating Contest Qualifying Events. Nathan's through its relationship with John Morrell & Co. has been named the official hot dog of Major League Baseball for the 2017 and 2018 seasons. Additionally, John Morrell & Co. will continue its mobile marketing tour throughout 2018, whereby merchandising trucks will visit numerous supermarkets and community events throughout the country, and select Hot Dog Eating Contests to bring the Nathan's / Coney Island experience to new markets, emphasizing our relationship with Major League Baseball.

We expect to continue the growth of our Branded Product Program through the addition of new points of sale. We believe that the flexible design of the Branded Product Program makes it well-suited for sales to all segments of the broad foodservice industry. We intend to keep targeting sales to a broad line of food distributors, which we believe complements our continuing focus on sales to various foodservice retailers. 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 will seek to market our franchise restaurant program to large, 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.

We also expect to continue opening 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. 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. We may seek to further explore opportunities to co-brand the Arthur Treacher's brand to other multi-unit foodservice operators in the future.

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 as well as snacking occasions.

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. We have successfully co-branded Nathan's with numerous business partners that were not Nathan's franchisees because of our adaptability of our menu, to be limited or extensive, and the uniqueness of our signature hot dog product.

Licensing Program

Pursuant to an Agreement expiring in March 2032, John Morrell & Co., a subsidiary of Smithfield Foods, Inc., 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 royalties of approximately \$19,445,000 in fiscal 2018 and \$17,073,000 in fiscal 2017 representing 18.7% and 17.7% of total revenues, respectively. We believe our future operating results will continue to be substantially impacted by the terms and conditions of the agreement with John Morrell & Co., but there can be no assurance thereof (See Item 1A - "Risk Factors"). Since 2002, 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 \$1,388,000 and \$1,351,000 during the fiscal 2018 period and fiscal 2017 period, respectively. The majority of these royalties were earned from one account. As of March 25, 2018, packaged Nathan's World Famous Beef Hot Dogs continued to be sold in approximately 43,000 supermarkets, mass merchandisers and club stores including Kroger, Publix, ShopRite, Walmart, Target, Sam's Club, Costco and BJ's Wholesale Club located in all 50 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 this agreement were approximately 90.5% of our fiscal 2018 period 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 2018 and fiscal 2017, we earned \$1,062,000 and \$870,000, respectively, from this license. Through this agreement, we control the manufacture of all Nathan's hot dogs.

During fiscal 2018, our licensee 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 37 states, primarily on the East Coast and in the South-West and West Coast during fiscal 2018. During fiscal 2018 and 2017, we earned royalties of \$518,000 and \$482,000, respectively, under this agreement. For the contract year ended in July 2017, we earned royalties of \$128,000 in excess of the annual minimum. Lamb Weston, Inc. continues to seek to further expand its market penetration in the Eastern United States and in the Mid-West. Lamb Weston, Inc. exercised its third option to extend the license agreement through July 2023, pursuant to which the minimum royalties will increase 4% annually.

During fiscal 2018, 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 \$227,000 during fiscal 2018 and \$231,000 during fiscal 2017.

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 \$319,000 during fiscal 2018 and \$311,000 during fiscal 2017.

We have a license agreement, which currently expires on December 31, 2019, with Inventure Foods, Inc. for the manufacture and sale of Nathan's branded potato chips and other salty snack products. Royalties earned under this agreement were approximately \$60,000 during fiscal 2018 and \$50,000 during fiscal 2017.

Provisions and Supplies

Nathan's World Famous Beef Hot Dogs are primarily manufactured by John Morrell & Co. for sale by our Branded Product Program, our restaurant system, and at retail. John Morrell & Co. and other hot dog manufacturers supply the hot dogs for our Company-operated and franchise-operated restaurants. All hot dogs are manufactured 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, engaged Newly Weds Foods, Inc. as an alternative source of supply. Our frozen

crinkle-cut French fries have been produced exclusively by Lamb Weston, Inc. McCain Foods USA is a secondary source of supply of our frozen French fries for our restaurant system. During fiscal 2018, McCain Foods USA provided approximately 18.5% of our frozen crinkle-cut French fries. 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 currently utilize a cooperative distribution system pursuant to an agreement with UniPro Foodservice, Inc., the Multi-Unit Group, which is comprised of institutional food and non-food distributors organized to procure, distribute and market food service and non-food merchandise for the distribution needs of our domestic restaurant system. Our former distribution agreement with US Foodservice, Inc. was due to expire on July 31, 2018. This new arrangement allows for more flexibility in expanding into new markets throughout the U.S., as well as proves to be more cost efficient for our current franchisees. The strategic distribution partners under this new agreement include: DiCarlo Distributors, Inc., Tapia Brothers Co., Cheney Brothers, Inc., Feesers, Inc., Lipari Foods, LLC and Chain Distribution Services LLC. Our branded products are delivered to our ultimate customers throughout the country by numerous distributors, including US Foodservice, Inc., SYSCO Corporation, Vistar / PFG, McLane and DOT Foods.

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 2017, we hosted 19 regional contests at a variety of high profile locations such as New York New York Hotel and Casino, Las Vegas, NV, and Citi Field, Queens, NY, as well as within the cities of Boston, MA, Nashville, TN, San Antonio and Fort Worth, TX, St. Louis, MO, Charlotte, NC, Syracuse, NY, Norfolk, VA and Washington, DC. In 2018, we are again holding contests at the Great American Ballpark, Cincinnati, OH, Busch Stadium, St Louis, MO and Dutch Wonderland, Lancaster, PA and other cities across the U.S. Our first 2018 regional contest took place in Florida on March 31st. In total we will host 15 regional contests. These regional contests culminate on July 4th as the regional champions converge at our flagship restaurant in Coney Island, NY, to compete for the coveted "Mustard Yellow Belt." We also have a women's-only Hot Dog Eating Contest at Coney Island which includes 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 4th generates significant brand exposure across major broadcast and cable networks nationally. The national championship contest has been aired nationally on ESPN since 2004.

Nathan's Famous continues to look to sports sponsorships as a strategic marketing opportunity to further brand recognition. In addition to the branded signage opportunity, Nathan's sells 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 throughout seating areas. Nathans' current sports sponsorships include:

Professional Baseball: Yankee Stadium – New York Yankees, Citi Field – New York Mets; Marlins Park – Miami Marlins; Nationals Park – Washington Nationals; Coors Field – Colorado Rockies; and

Professional Basketball and Hockey: The Barclays Center – Brooklyn Nets and NY Islanders; the Nassau Veteran’s Memorial Coliseum; and

Professional Football: AT&T Stadium – Dallas Cowboys.

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 were not obligated to contribute to the advertising fund during fiscal 2018. Vendors that supply products to the Company and our restaurant system also contribute to the advertising fund based upon purchases made by our franchisees and at Company-owned restaurants.

Throughout fiscal 2018, Nathan's primary restaurant marketing emphasis 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 2018 and fiscal 2017, our marketing activities continued with the use of free-standing inserts and use of a localized newsprint campaigns. These newsprint campaigns typically reach more than eight million homes per insertion in the area surrounding approximately 100 Nathan's company-owned and franchised restaurants. These programs usually feature discounted offers that are designed to attract customers to our restaurants. We monitor the results of these campaigns and have committed to additional campaigns in fiscal 2019.

We continue to market to and broaden Nathan's brand exposure with the younger generation. The goal is to increase brand awareness and seek to make the brand relevant with younger customers via social media platforms.

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

During fiscal 2018, Nathan's marketing efforts for the Branded Product Program concentrated primarily on participation in national industry trade shows, and regional, local distributor trade events. 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 the fiscal year ending March 31, 2019 ("fiscal 2019"), 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 continuing 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 in the U.S. and overseas 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. Other regulatory interpretations (such as the NLRB's review of joint employment standards under the National Labor Relations Act, the Labor Department's review of the Fair Labor Standards Act, the SBA's review of independence standards applicable to reviewing franchisee loan applications, etc.) may have an impact on our overall business as well, although we do not believe that these will significantly affect our operations. 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. Two 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 Securities and Exchange Commission (“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 25, 2018, we had 205 employees, 43 of whom were corporate management and administrative employees, 25 of whom were restaurant managers and 137 of whom were hourly full-time and part-time foodservice employees. We generally employ approximately 300-400 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, 2020. Employees at a fourth location are represented by the same union pursuant to a different agreement that expires November 30, 2019. We consider our employee relations to be good and have not suffered any strike or work stoppage for more than 44 years.

We provide a training program for managers and assistant managers of our Company-owned and new 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, THE ORIGINAL SINCE 1916 NATHAN'S FAMOUS and design, SINCE 1916 NATHAN'S FAMOUS THIS IS THE ORIGINAL, THE ORIGINAL NATHAN'S FAMOUS, THE ORIGINAL NATHANS FAMOUS 100TH ANNIVERSARY and design in color, and NATHAN'S FAMOUS EXPRESS within the United States, with some of these marks holding corresponding foreign trademark and service mark registrations in 80 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 Colombia, Costa Rica, Kuwait, Malaysia, Singapore 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 23, 2008.

Seasonality

Our business is affected by seasonal fluctuations, including the effects of weather and economic conditions. Historically, sales from our Company-owned locations, principally at Coney Island, and franchised restaurants from which franchise 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. Additionally, revenues from our Branded Product Program and retail licensing program

generally follow similar seasonal fluctuations, although not to the same degree. 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. Many fast food companies 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 restaurant franchisors 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 may 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 Securities Exchange Act of 1934, as amended (“the Exchange Act”) are available free of charge on our website, www.nathansfamous.com, 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 licensing revenue and overall profitability is substantially dependent on our agreement with John Morrell & Co. and the loss or a significant reduction of this revenue would have a material adverse effect on our financial condition and results of operations.

We earned license royalties from John Morrell of approximately \$19,445,000 in fiscal 2018 and approximately \$17,073,000 in fiscal 2017 representing 18.7% and 17.7% of total revenues, respectively. As a result of our agreement with John Morrell, we expect that most of our license revenues will be earned from John Morrell for the foreseeable future. In addition, the increase in our adjusted EBITDA from \$28.3 million in fiscal 2017 to \$29.1 million in fiscal 2018 was primarily the result of an increase in license royalties earned from John Morrell. While our agreement with John Morrell expires in 2032, John Morrell's BPP business is weighted towards one high volume user who has not sold product pursuant to a formal agreement. Accordingly, in the event that (i) John Morrell or its customers experience financial difficulties, (ii) there is a disruption or termination of the John Morrell Agreement or (iii) there is a significant decrease in our revenue from John Morrell, it would have a material adverse effect on our business, results of operations and financial condition.

A significant amount of our Branded Product Program ("BPP") revenue is from a small number of BPP accounts. The loss of any one or more of those BPP accounts could harm our profitability and operating results.

For the fiscal 2018 period, approximately 79% of our BPP business is from seven accounts, including one account representing approximately 32% of the BPP 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 and financial condition.

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, industry demand and other factors beyond our control. For several years prior to June 2015, reduced supply and increased demand in beef resulted in shortages, which required us to pay significantly higher prices for the beef we purchased. Since June 2015, beef prices have significantly declined. Accordingly, the market price of hot dogs during the fiscal 2016 period was approximately 7.1% lower than the period ended March 27, 2015 and was approximately 17.1% lower during the fiscal 2017 period than the fiscal 2016 period. The market price for hot dogs during our fiscal 2018 period was approximately 6.9% higher than the fiscal 2017 period. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2019. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. If the price of beef or other food products that we use in our operations significantly increases, particularly in the BPP, and we choose not to pass, or cannot pass, these increases on to our customers, our operating margins will decrease and such decrease in operating margins could have a material adverse effect on our business, results of operations or financial condition.

John Morrell 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 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 our 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 determines 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 our business, results of operations and financial condition. Furthermore, a supply disruption or other events such as the discovery in May 2017 that a limited number of packages of Nathan's hot dogs had visible metal flakes between the hot dogs and the packaging film might affect our brand in the eyes of consumers and the retail trade, which damage might negatively impact our 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.

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

We have an agreement with a secondary hot dog manufacturer that continues to also supply natural casing hot dogs for our restaurant business. Additionally, a majority of the frozen crinkle-cut French fries sold through our 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.

In the event that the hot dog or French fry suppliers are unable to fulfill our 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 our ability to operate our business on a day-to-day basis.

In the event that we are 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 BPP

accounts, which would damage our business, our franchisees and our BPP customers and, in turn, negatively impact our financial results. In addition, any gap in supply to retail customers would result in lost royalty payments to us, which could have a significant adverse financial impact on our results of operations. Furthermore, any gap in supply to retail customers may damage our brand in the eyes of consumers and the retail trade, which damage might negatively impact our overall business in general and impair our ability to continue our retail licensing program.

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

Any of the foregoing occurrences may cause disruptions in the supply of our hot dog or French fry products, as the case may be, damage our franchisees and our BPP customers, adversely impact our financial results and/or damage our brand.

Our earnings and business growth strategy depends in large part on the success of our product licensees and product manufacturers. Our reputation and the reputation of our brand may be harmed by actions taken by our product licensees or product manufacturers that are otherwise outside of our control.

A significant portion of our earnings has come from royalties paid by our product licensees such as John Morrell & Co., Saratoga Food Specialties, Inc., a wholly-owned subsidiary of John Morrell & Co., Lamb Weston, Inc., and Perfection Foods. Although our agreements with these licensees contain numerous controls and safeguards, and we monitor the operations of our product licensees, our licensees are independent contractors, and their employees are not our employees. Accordingly, we cannot necessarily control the performance of our licensees under their license agreements, including without limitation, the licensee's continued best efforts to manufacture our 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 our 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 our 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.

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. We and our 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. We anticipate competition will continue to focus on pricing. Many of our 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 our Company. 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, we and our franchisees compete 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 we are unable to maintain our competitive position, we 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.

Recent changes to minimum wage rates have increased our labor costs.

We must comply with the Fair Labor Standards Act and various federal and state laws governing minimum wages. Increases in the minimum wage and labor regulations have increased our labor costs. New York State passed legislation increasing the minimum hourly wage for fast food workers of restaurant chains with 30 or more locations nationwide which over a period of time will increase the minimum wage to \$15.00 per hour. The first increase from this law took effect beginning December 31, 2015 and will be fully phased in by December 31, 2018 in New York City, where we operate three Company-owned restaurants and by December 31, 2021 throughout the rest of New York State which impacts the labor costs at our two remaining Company-owned restaurants and our franchised restaurants that operate in New York State. The impact of the New York minimum wage increases on our business amounted to a 12.3% average salary increase in 2016 and approximately an 11.0% average salary increase in 2017 for our employees that were affected. We also expect that the increases that took effect on December 31, 2017 will increase the hourly wage by 11.4% for the employees that are affected in 2018. In addition, the federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. As minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees but also the wages paid to employees at wage rates that are above minimum wage. Additionally, as a result, we anticipate that our labor costs will continue to increase. If we are unable to pass on these higher costs through price increases, our margins and profitability as well as the profitability and margins of our franchisees will be adversely impacted which could have a material adverse effect on our business, results of operations or financial condition. Our business could be further negatively impacted if the decrease in margins for our franchisees results in the potential loss of new franchisees or the closing of a significant number of existing franchised restaurants.

Increases in labor costs due to new regulations or labor shortages could slow our growth or harm our business.

In addition to minimum wage increases, in the past several years, state and local governments have enacted legislation which had increased labor costs. For instance, effective November 27, 2017, the City of New York enacted Fair Work Week Legislation. A key component of this legislation is a requirement that fast food restaurants schedule their workers at least two weeks in advance or pay employees between \$10 to \$75 per scheduling change, depending on the situation. Due to Nathan's dependency on weather conditions at our two Coney Island locations during the summer, we are unable to determine the potential impact on our results of operations, which could be material. We have estimated that the daily penalty could amount to as much as \$10,000 per day during the height of the summer season for these two restaurants. Continued increases in our labor costs as a result of this or other new legislation could have a material adverse effect on our business, financial condition and results of operations.

Moreover, 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.

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 are expected to provide their employees with minimum levels of healthcare coverage or incur certain financial penalties. Our workforce includes numerous part-time workers, which may increase our health care costs and expose us to certain excise taxes, in the event that healthcare is offered to less than 95% of our full-time employees, as defined by the legislation. Additionally, some states and localities have passed state and local laws mandating the provision of certain levels of health benefits by some employers. Continued increases in health care costs 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. Increased health care costs could have a material adverse effect on our business, financial condition and results of operations.

Changes in economic, market and other conditions could adversely affect us and our franchisees, and thereby our 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. Our ability and our franchisees' ability to finance new restaurant development, to make 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 our 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 we and our franchisees cannot obtain desirable additional and alternative locations at reasonable prices, our 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, or incidents involving food-borne illnesses or food tampering, whether or not accurate, can cause damage to our 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 our business as well. Our brand's reputation is an important asset to the business; as a result, anything that damages our brand's reputation could immediately and severely hurt system-wide sales and, accordingly, revenue and profits. If customers become ill from food-borne illnesses or food tampering, we could also be forced to temporarily close some, or all, 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 system-wide 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 our Company-owned restaurants or our franchisees' restaurants, could materially harm our business, results of operations and financial condition.

Additionally, we may be subject to liability if the consumption of any of our products causes injury, illness, or death. A significant product liability judgment or a widespread product recall may negatively impact our 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

our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. Injury to our brand's reputation would likely reduce revenue and profits.

Negative publicity, including complaints on social media platforms and other internet-based communications, could damage our reputation and harm our guest traffic, and in turn, negatively impact our business, financial condition, results of operations and prospects.

There has been a marked increase in the use of social media platforms and similar devices, including blogs, social media websites and other forms of internet-based communications that allow individuals to access a broad audience of consumers and other interested persons. Consumers value readily available information concerning goods and services that they have or plan to purchase, and may act on such information without further investigation or authentication. The availability of information on social media platforms is virtually immediate, as is its impact. Many social media platforms immediately publish the content their subscribers and participants can post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning our business and products may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Such platforms could also be used for dissemination of trade secret information, compromising valuable Company assets. In sum, the dissemination of information online, regardless of its accuracy, could harm our business, financial condition, results of operations and prospects.

Changing health or dietary preferences may cause consumers to avoid products offered by us in favor of alternative foods.

The foodservice industry is affected by consumer preferences and perceptions. Reports of the use of hormones, antibiotics or pesticides in the production of certain food products may cause consumers to reduce or avoid consumption of such food products. If prevailing health or dietary preferences, perceptions and governmental regulation cause consumers to avoid the products we offer in favor of alternative or healthier foods, demand for our products may be reduced and our business could be harmed.

We are subject to health, employment, environmental and other government regulations, and failure to comply with existing or future government regulations could expose us to litigation, damage our corporate reputation or the reputation of our brands and lower profits.

We and our franchisees are subject to various federal, state and local laws, rules or regulations affecting our 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 depends 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 we fail to comply with any of these laws, we may be subject to governmental action or litigation, and accordingly our reputation could be harmed.

Injury to us or our 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, we 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 our food products, which could increase expenses. The operation of our 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 our operations, particularly our relationship with our 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 our reported results of operations, which could cause our stock price to fluctuate or decline.

We may not be able to adequately protect our intellectual property, which could decrease the value of our business or the value of our brands and products.

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

We have registered or applied to register many of our trademarks and service marks both in the United States and in foreign countries. Because of the differences in foreign trademark laws, our trademark rights may not receive the same degree of protection in foreign countries as they would in the United States. We also cannot assure you that our trademark and service mark applications will be approved. In addition, third parties may oppose our trademark and service mark applications, or otherwise challenge our use of the trademarks or service marks. In the event that our trademarks or service marks are successfully challenged, we could be forced to rebrand our products and services, which could result in loss of brand recognition, and could require us to devote resources advertising and marketing new brands. Further, we cannot assure you that competitors will not infringe our marks, or that we will have adequate resources to enforce our trademarks or service marks.

We also license third party franchisees and other licensees to use our trademarks and service marks. We enter into franchise agreements with our franchisees and license agreements with other licensees which govern the use of our trademarks and service marks. Although we make efforts to police the use of our trademarks and service marks by our franchisees and other licensees, we cannot assure you that these efforts will be sufficient to ensure that our franchisees and other licensees abide by the terms of the trademark licenses. In the event that our franchisees fail to do so, our trademark and service mark rights could be diluted.

Our earnings and business growth strategy depends in large part on the success of our restaurant franchisees and on new restaurant openings. Our corporate reputation or brand reputation may be harmed by actions taken by restaurant franchisees that are otherwise outside of our control.

A significant portion of our earnings comes from royalties, fees and other amounts paid by our restaurant franchisees. The opening and success of franchised restaurants depends on various factors, including the demand for our franchises and the selection of appropriate franchisee candidates, the availability of suitable restaurant sites, the negotiation of acceptable lease or purchase terms for new locations, permitting and regulatory compliance, the ability to meet construction schedules, the availability of financing and the financial and other capabilities of our franchisees and area developers. We cannot assure you that area developers planning the opening of franchised restaurants will have the business abilities or sufficient access to financial resources necessary to open the restaurants required by their agreements. We cannot assure you that franchisees will successfully participate in our strategic initiatives or operate their restaurants in a manner consistent with our concept and standards. Our franchisees are independent contractors, and their employees are not our employees. We provide training and support to, and monitor the operations of, our franchisees, but the quality of their restaurant operations may be diminished by any number of factors beyond our control. Consequently, the franchisees may not successfully operate their restaurants in a manner consistent with our 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 our system, thus damaging our corporate or brand reputation, potentially adversely affecting our 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.

We cannot assure you that franchisees will renew their franchise agreements or that franchised restaurants will remain open. Closings of franchised restaurants are expected in the ordinary course and may cause our royalty revenues and financial performance to decline. Our principal competitors may have greater influence over their respective restaurant systems than we do because of their significantly higher percentage of company restaurants and/or ownership of franchisee real estate and, as a result, may have a greater ability to implement operational initiatives and business strategies, including their marketing and advertising programs.

As our franchisees are independent operators, we have limited influence over their ability to invest in other businesses or incur excessive indebtedness. Some of our franchisees have invested in other businesses, including other restaurant concepts. Such franchisees may use the cash generated by their Nathan's restaurants to expand their other businesses or to subsidize losses incurred by such businesses. Additionally, as independent operators, franchisees do not require our consent to incur indebtedness. Consequently, our franchisees have in the past, and may in the future, experience financial distress as a result of over-leveraging. To the extent that our franchisees use the cash from their Nathan's restaurants to subsidize their other businesses or experience financial distress, due to over-leveraging, delayed or reduced payments of royalties, advertising fund contributions and rents for properties we lease to them, or otherwise, it could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, lenders to our franchisees may be less likely to provide current or prospective franchisees necessary financing on favorable terms, or at all, due to current market conditions and operating results.

Changes in franchise regulation laws could impact our ability to obtain or retain licenses or approvals and adversely affect our business, financial condition, results of operations and prospects.

We are also subject to federal statutes and regulations, including the rules promulgated by the U.S. Federal Trade Commission, as well as certain state laws governing the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non-competition provisions and on provisions concerning the termination or non-renewal of a franchise. Some states require that certain materials be filed for a franchisor to be registered and approved, before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on the performance of major retailers, wholesalers, specialty distributors and mass merchants for the success of our business, and should they perform poorly or give higher priority to other brands or products, our business could be adversely affected.

We sell our products to retail outlets and wholesale distributors including, traditional supermarkets, mass merchandisers, warehouse clubs, wholesalers, food service distributors and convenience stores. The replacement by or poor performance of our major wholesalers, retailers or chains or our inability to collect accounts receivable from our customers could materially and adversely affect our results of operations and financial condition. In addition, our customers offer branded and private label products that compete directly with our products for retail shelf space and consumer purchases. Accordingly, there is a risk that our customers may give higher priority to their own products or to the products of our competitors. In the future, our customers may not continue to purchase our products or provide our products with adequate levels of promotional support. A significant decline in the purchase of our products would have a material adverse effect on our business, results of operations and financial condition.

The sophistication and buying power of our customers could have a negative impact on profits.

Our customers, such as supermarkets, warehouse clubs, and food distributors, have continued to consolidate, resulting in fewer customers with which to do business. These consolidations and the growth of supercenters have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and can demand lower pricing, increased promotional programs, or specialty tailored products. In addition, larger retailers have the scale to develop supply chains that permit them to operate with reduced inventories or to develop and market their own retailer brands. If the larger size of these customers results in additional negotiating strength and/or increased private label or store brand competition, our profitability could decline.

Consolidation also increases the risk that adverse changes in our customers' business operations or financial performance will have a corresponding material adverse effect on us. For example, if our customers cannot access sufficient funds or financing, then they may delay, decrease, or cancel purchases of our products, or delay or fail to pay us for previous purchases.

Failure by third-party manufacturers or suppliers of raw materials to comply with food safety, environmental or other regulations may disrupt our supply of certain products and adversely affect our business.

We rely on third-party manufacturers to produce our products and on other suppliers to supply raw materials. Such manufacturers and other suppliers, whether in the United States or outside the United States, are subject to a number of regulations, including food safety and environmental regulations. Failure by any of our manufacturers or other suppliers to comply with regulations, or allegations of compliance failure, may disrupt their operations. Disruption of the operations of a manufacturer or other suppliers could disrupt our supply of product or raw materials, which could have an adverse effect on our business, consolidated financial condition, results of operations or liquidity. Additionally, actions we may take to mitigate the impact of any such disruption or potential disruption, including increasing inventory in anticipation of a potential production or supply interruption, may adversely affect our business, consolidated financial condition, results of operations or liquidity.

Leasing of real estate exposes us to possible liabilities and losses.

We lease 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 our franchisees. Accordingly, we are subject to all of the risks associated with owning, leasing and sub-leasing real estate. We generally cannot cancel these leases. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform the 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, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations.

We 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.

Our future success may depend on opportunities to buy or obtain rights to other businesses that could complement, enhance or expand our current business or products or that might otherwise offer growth opportunities. In particular, we may evaluate potential mergers, acquisitions, joint venture investments, strategic initiatives, alliances, vertical integration opportunities and divestitures. We have no commitments, agreements or understandings with respect to any of such transactions. In addition, our ability to engage in these transactions may be impacted by the incurrence of debt as a result of our sale of the Notes. Any attempt by us to engage in these transactions may expose us 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.

Our annual and quarterly financial results may fluctuate depending on various factors, many of which are beyond our control, and, if we fail to meet the expectations of investors, our share price may decline.

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

- changes in customer demand;
- sales promotions by Nathan's and its competitors;
- variations in the timing and volume of Nathan's sales and franchisees' sales;
- changes in the terms of our existing license/supply agreements and/or the replacement of existing licenses or suppliers;
- 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.

Our operations are influenced by adverse weather conditions.

Weather, which is unpredictable, can impact our sales. Harsh weather conditions that keep customers from dining out result in lost opportunities for our Company-owned and our franchisees' 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. Our fourth quarter includes winter months and historically has a lower level of sales at Company-owned and franchised restaurants. 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 our performance or how it may perform in the future.

Due to the concentration of our 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 25, 2018, we and our franchisees (including units operated pursuant to our BMP) operated Nathan's restaurants in 20 states and 12 foreign countries. As of March 25, 2018, the highest concentration of operating units was 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, 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.

Cyberattacks and breaches could cause operational disruptions, fraud or theft of sensitive information.

Aspects of our operations are reliant upon internet-based activities, such as ordering supplies and back-office functions such as accounting and transaction processing, making payments and accepting credit card payments in our restaurants, processing payroll and other administrative functions, etc. For instance, if we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs.

We also use third-party vendors. While we select third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyberattacks and security breaches at a vendor could adversely affect our ability to deliver products and services to conduct our business.

Although we have taken measures to protect our technology systems and infrastructure, including continuously working to install new, and upgrade our existing information technology systems and provide employee training around phishing, malware and other cyber risks, there can be no assurance that we will be successful and fully protected against cyber risks and security breaches. A security breach could result in operational disruptions, theft or fraud, or exposure of sensitive information to unauthorized parties. Such events could result in additional costs related to operational inefficiencies, or damages, claims or fines.

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

We have long-lived assets, 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;
- 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, as well as the performance of individual operating units, future impairment charges could be incurred.

Catastrophic events may disrupt our business.

Unforeseen events, or the prospect of such events, including war, terrorism and other international conflicts, 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 our 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 our products, or the ability to receive products from suppliers. We do not have insurance policies that insure against certain of these risks. To the extent that we do maintain insurance with respect to some of these risks, our receipt of the proceeds of such policies may be delayed or the proceeds may be insufficient to offset our losses fully.

Our international operations are subject to various factors of uncertainty.

Our 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 (including intellectual property 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 we believe we have developed the support structure required for international growth, there is no assurance that such growth will occur or that international operations will be profitable.

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.

We have sought to lock in the cost of a portion of our 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, we may be unable to enter into similar purchase commitments in the future. In addition, we do not have the ability to effectively hedge all of our beef purchases using futures or forward contracts without incurring undue financial cost and risk.

Our business operations and future development could be significantly disrupted if we lose key members of our management team.

The success of our business continues to depend to a significant degree upon the continued contributions of our senior officers and key employees, both individually and as a group. Our future performance will be substantially dependent, in particular, on our ability to retain and motivate our executive officers, for certain of whom we currently have employment agreements in place. The loss of the services of any of our executive officers could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our ability to satisfy our obligations under the Notes. If we lose the services of any of these individuals in the foreseeable future; we currently have no effective replacement for any of these individuals due to their experience, reputation in the industry and special role in our operations.

A recent ruling and complaint filed by the general counsel of the National Labor Relations Board could, if upheld, make us liable for violations of overtime, wage or union-organization violations by our franchisees.

On July 29, 2014, the General Counsel of the National Labor Relations Board (NLRB) issued a statement announcing that McDonald's USA LLC might be charged with being jointly liable for labor and wage violations by its franchisees. Subsequently on December 19, 2014, the General Counsel issued complaints alleging that McDonald's USA LLC was a "joint employer" with its franchisees at certain franchised locations, under certain fact patterns. McDonald's USA LLC and its franchisees are currently in administrative litigation with the NLRB. However, in March 2018, the NLRB announced a proposed settlement of that complaint. If the parties do not ultimately settle and the NLRB's general counsel were to prevail in the administrative proceedings (as well as in related appeals in federal courts that will ensue), against McDonald's USA LLC, then depending upon the facts charged in that case, the "joint employment" principle may be extended more broadly to franchisors other than McDonald's, USA LLC (such as Nathan's). If that took place, then we also might be held partly liable in cases of alleged overtime, wage, or union-organizing violations by our franchisees. Similar to the NLRB's action, there have been private lawsuits in which parties have alleged that a franchisor and its franchisee "jointly employ" the franchisee's staff, that the franchisor is responsible for the franchisees' staff (under theories of apparent agency, ostensible agency, or actual agency), or otherwise. Among other things, a determination that Nathan's and its franchisees are joint employers of one or more franchisees' staff may make it easier to organize our franchisees' staff into unions, provide the staff and their union representatives with bargaining power to request that we have our franchisees raise wages, and make it more expensive and less profitable to operate a Nathan's franchised restaurant. A decrease in profitability or the closing of a significant number of franchised restaurants could significantly impact our business (as well as our franchisees' businesses), and we may also be significantly impacted if the NLRB or a private party successfully brought an action against our company alleging that we are a "joint employer" of our franchisees' staffs.

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, 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.

General regulation of the restaurant industry could adversely impact our business, financial condition, results of operations and prospects.

The restaurant industry is subject to extensive federal, state and local governmental regulations, including those relating to the preparation and sale of food and those relating to building and zoning requirements. In recent years, there has been an increased legislative, regulatory and consumer focus on nutrition and advertising practices in the food industry, particularly among restaurants. This focus has resulted in, and may continue to result in, the enactment of laws and regulations that impact the ingredients and nutritional content of our menu offerings. For example, a number of states, counties and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose certain nutritional information available to customers, or have enacted legislation restricting the use of certain types of ingredients in restaurants. Furthermore, the 2010 Patient Protection and Affordable Care Act (“PPACA”) establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus. Specifically, the PPACA amended the Federal Food, Drug and Cosmetic Act to require chain restaurants with 20 or more locations operating under the same name and offering substantially the same menus to publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily calorie intake. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information.

The PPACA further permits the United States Food and Drug Administration (the “FDA”) to require covered restaurants to make additional nutrient disclosures, such as disclosure of trans fat content. The FDA nutritional labeling rules require establishments to post calorie counts on all menu items, calorie boards and drive-thru displays throughout the United States. Businesses affected by the new regulations had one year to comply. Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming.

An unfavorable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could negatively influence the demand for our offerings. Additionally, if consumer health regulations or consumer eating habits change significantly, we may be required to modify or discontinue certain menu items, and we may experience higher costs associated with the implementation of those changes. Additionally, some government authorities are increasing regulations regarding trans fats and sodium, which may require us to limit or eliminate trans fats and sodium from our menu offerings, switch to higher cost ingredients or may hinder our ability to operate in certain markets. Failure to comply with these laws or regulations could have a material adverse effect on our business, financial condition, results of operations and prospects.

We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements and to adapt our menu offerings to trends in eating habits. The imposition of menu-labeling laws could have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general.

While we recently approved a quarterly dividend policy, there can be no assurance as to the declaration of future dividends or the amount of such dividend.

We paid our shareholders a special \$25.00 per share dividend in 2015 and a special \$5.00 per share dividend in January 2018. On May 31, 2018, Nathans' Board of Directors authorized the commencement of a regular dividend of \$1.00 per share per annum, payable at the rate of \$0.25 per quarter. The initial \$0.25 per share dividend was declared on June 8, 2018 and will be paid on Friday June 22, 2018 to shareholders of record at the close of business on June 18, 2018. Our declaration and payment of future cash dividends are subject to the final determination by our Board of Directors that (i) the dividend will be made in compliance with laws applicable to the declaration and payment of cash dividends, including Section 170 of the Delaware General Business Corporation Law, (ii) the dividend complies with the terms of the Indenture, and (iii) the payment of dividends remains in our best interests, which determination will be based on a number of factors, including the impact of changing laws and regulations, economic conditions, our results of operations and/or financial condition, capital resources, the ability to satisfy financial covenants and other factors considered relevant by the Board of Directors. There can be no assurance our Board of Directors will approve the payment of cash dividends in the future or the amount of a cash dividend. Any discontinuance of the payment of a dividend or changes to the amount of a dividend compared to prior dividends could cause our stock price to decline.

The Tax Cuts and Jobs Act of 2017 may increase the after-tax cost of our outstanding indebtedness.

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") limits our interest expense deduction on our Notes to 30% of taxable income before interest, depreciation and amortization from 2018 to 2021 and then taxable income before interest thereafter. The Tax Act permits us to carry forward disallowed interest expense indefinitely. Due to our high degree of leverage, beginning in 2018, a portion of our interest expense in future years may not be deductible, which may increase the after tax cost of any new debt financings as well as the refinancing of our existing debt. We are currently analyzing the impact of the nondeductible interest on our operations and capital structure.

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

Our 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 our effective tax rates. If changes to applicable tax laws are enacted, our results of operations could be negatively impacted. Our 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 our results of operations.

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, including the terms and condition of our Notes, 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 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 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 one year for each of Messrs. Lorber and Gatoff, of his becoming aware of the change in control, to terminate his employment agreement. Upon such termination, 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.

Our net income and cash results could be impacted by the closing of the sale of our Company-owned restaurant, including the real estate, in Bay Ridge, Brooklyn, New York.

We have entered into an Agreement of Sale to sell our Company-owned restaurant, including the real estate, in Bay Ridge, Brooklyn, New York. We have received an aggregate of \$1.2 million deposit in connection with entering into the Agreement of Sale and an amendment thereto and proceeds for the sale are estimated to be \$12.25 million. Such consideration would contribute significantly to our net income for the period in which the closing occurs as well our cash. While the Agreement of Sale, as amended, contemplates a closing in the second quarter of fiscal 2019, the Agreement of Sale initially contemplated a closing in the first quarter of fiscal 2019 and there can be no assurance that the closing of the Agreement of Sale will occur in the second quarter of fiscal 2019 or at all. If the Agreement of Sale does not close, we will not receive the expected increase to our net income and cash.

Risks Related to the Notes

We have a substantial amount of indebtedness.

We have significant indebtedness and debt service obligations. As of March 25, 2018, we had total outstanding indebtedness of \$150 million which is due in 2025. In addition, subject to the terms of any future agreements, we and our subsidiaries may be able to incur additional indebtedness in the future. There is a risk that we will not be able to generate sufficient funds to repay our debt. If we cannot service our fixed charges, it would have a material adverse effect on our business and results of operations.

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under the Notes and our other debt.

As of March 25, 2018, we had \$150.0 million of indebtedness under the Notes. Our substantial indebtedness could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- make it more difficult for us to satisfy our other financial obligations, including our obligations relating to the Notes;

restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such indebtedness;
limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
place us at a competitive disadvantage compared to our competitors that have less debt; and
limit our ability to borrow additional funds or increase our cost of borrowing.

In addition, the terms of the indenture governing the Notes contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts, including the Notes. The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations, prospects or ability to satisfy our obligations under the Notes.

Despite our current indebtedness level, we may still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness, including additional Notes and other secured indebtedness, in the future. Although the indenture governing the Notes contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we face would intensify and we may not be able to meet all our debt obligations, including the repayment of the Notes. In addition, the indenture governing the Notes does not prevent us from incurring obligations that do not constitute indebtedness under the indenture.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. As such, we may not be able to generate sufficient cash to service the Notes or our other indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make payments on the Notes, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or future borrowings from other sources in an amount sufficient to enable us to service our indebtedness, including the Notes, or to fund our other liquidity needs. If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our indebtedness, we may need to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our indebtedness, including the Notes, on or before the maturity thereof, any of which could have a material adverse effect on our operations. We cannot assure you that we will be able to refinance any of our indebtedness, including the Notes, on commercially reasonable terms or at all, or that the terms of that indebtedness will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition, the value of our outstanding debt, including the Notes, and our ability to make any required cash payments under our indebtedness, including the Notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at that time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, any future credit facility may be secured by a priority lien on substantially all of our assets. As such, our ability to refinance the Notes or seek additional financing could be impaired as a result of such security interest.

We are subject to a number of restrictive covenants, which may restrict our business and financing activities.

The indenture governing the Notes imposes, and the terms of any future indebtedness may impose, operating and other restrictions on us. Such restrictions will affect, and in many respects limit or prohibit, among other things, our ability to:

- incur or guarantee additional indebtedness or issue certain preferred stock;
- pay dividends on or make distributions in respect of our equity interests;
- redeem, repurchase or retire our equity interests, unsecured indebtedness or subordinated indebtedness;
- make certain investments;
- transfer or sell assets;
- create or incur certain liens;
 - create restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;
- merge or consolidate with other companies or sell, transfer or otherwise dispose of all or substantially all of our and our restricted subsidiaries' assets;
- engage in certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

The restrictions in the indenture governing the Notes may prevent us from taking actions that we believe would be in the best interests of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. Our ability to comply with these covenants in future periods will largely depend on the pricing of our products and services, and our ability to successfully implement our overall business strategy. We cannot assure you that we will be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements. The breach of any of these covenants and restrictions could result in a default under the indenture governing the Notes, which could result in an acceleration of our indebtedness.

Changes in respect of the debt ratings of our Notes may materially and adversely affect the availability, the cost and the terms and conditions of our debt.

Our Notes have been publicly rated by Moody's Investors Service, Inc., or Moody's, and Standard & Poor's Rating Services, or S&P, independent rating agencies. In addition, future debt instruments may be publicly rated. These debt ratings may affect our ability to raise debt. Any future downgrading of the Notes or our other debt by Moody's or S&P may affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

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 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. We have entered into an agreement to sell this restaurant, including the real estate, in July 2018, which we expect to continue operating through September 2018, before it ceases operations.

At March 25, 2018, 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	April 2030	4,100
Central Park Avenue	Yonkers, NY	December 2023	3,500

(a) Seasonal satellite location.

(b) At March 25, 2018, in addition to the leases listed above, we were the sub-lessor of one property to a franchisee located within the metropolitan New York area.

Aggregate rental expense, net of sublease income, under all current leases amounted to \$1,592,000 in fiscal 2018.

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.

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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 25, 2018		
First quarter	\$71.80	\$61.30
Second quarter	71.40	54.95
Third quarter	100.05	72.00
Fourth quarter	78.60	61.15
Fiscal year ended March 26, 2017		
First quarter	\$46.86	\$40.85
Second quarter	51.37	42.08
Third quarter	65.00	48.00
Fourth quarter	66.10	57.80

At June 5, 2018, the closing price per share for our common stock, as reported by Nasdaq, was \$87.95.

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

Historically, Nathan's has not paid or declared any regular dividends on our common stock since our initial public offering in 1993. However, we have paid two Special Dividends, a \$5.00 per share Special Dividend in January 2018 and a \$25.00 per share Special Dividend in March 2015. On May 31, 2018, Nathans' Board of Directors authorized the commencement of a regular dividend of \$1.00 per share per annum, payable at the rate of \$0.25 per quarter. The initial \$0.25 per share dividend was declared on June 8, 2018 and will be paid on June 22, 2018 to shareholders of record at the close of business on June 18, 2018. Our ability to pay future dividends is limited by the terms of the indenture with US Bank National Association, as trustee and collateral trustee. It has been the Board of Directors' policy to return capital to our shareholders primarily through the purchase of stock pursuant to our stock buyback programs. In addition to the terms of the indenture, the payment of any cash dividends in the future will be dependent upon our earnings and financial requirements and there can be no assurance that we will declare and pay any dividends subsequent to the June 22, 2018 dividend.

Shareholders

As of June 5, 2018, we had approximately 446 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

The Company did not repurchase any of its common stock during the fiscal year ended March 25, 2018.

Since the commencement of the Company's stock buyback program in September 2001 through March 25, 2018, Nathan's has purchased a total of 5,127,373 shares of common stock at a cost of approximately \$77,303,000 under all of its stock repurchase programs and two modified Dutch Auction tender offers.

On March 11, 2016, the Company's Board of Directors authorized increases to the sixth stock repurchase plan for the purchase by the Company of up to 1,200,000 shares of common stock. As of March 25, 2018, Nathan's had repurchased 939,742 shares at a cost of \$29,640,676 under the sixth stock repurchase plan. At March 25, 2018, there were 260,258 shares remaining to be repurchased pursuant to the sixth stock repurchase plan. The plan does not have a set expiration date. Purchases under the Company's stock repurchase program may be made from time to time, depending on market conditions, in open market or privately-negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases.

Item 6. Selected Financial Data.**Fiscal years ended (1)**

March	March	March	March	March
25,	26,	27,	29,	30,
2018	2017	2016	2015	2014

(In thousands, except per share amounts)

Statement of Earnings Data:

Revenues:

Sales (2)	\$76,708	\$70,820	\$75,590	\$75,057	\$65,106
License royalties	23,020	20,368	19,815	18,011	8,513
Franchise fees and royalties	4,473	5,068	5,044	5,581	5,718
Total revenues	104,201	96,256	100,449	98,649	79,337

Costs and Expenses:

Cost of sales	58,752	51,634	57,557	61,488	52,657
Restaurant operating expenses	3,506	3,386	3,557	3,747	3,142
Depreciation and amortization	1,352	1,297	1,255	1,253	1,157
General and administrative expenses	13,491	13,659	13,117	12,203	11,460
Total costs and expenses	77,101	69,976	75,486	78,691	68,416

Income from operations	27,100	26,280	24,963	19,958	10,921
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Interest expense	(13,591)	(14,665)	(14,630)	(816)	(135)
Loss on debt extinguishment (Note L)	(8,872)	-	-	-	-
Impairment charge long-lived assets	(790)	-	-	-	-
Interest and other income, net	265	189	151	263	401
Impairment charge long-term investment	-	-	(100)	-	(400)
Insurance gain	-	-	-	-	2,774
Income before provision for income taxes	4,112	11,804	10,384	19,405	13,561
Provision for income taxes	1,482	4,319	4,288	7,702	5,234
Net income (2)	\$2,630	\$7,485	\$6,096	\$11,703	\$8,327

Income per share:

Basic (2)	\$0.63	\$1.79	\$1.38	\$2.61	\$1.87
Diluted (2)	\$0.62	\$1.78	\$1.37	\$2.55	\$1.81

Dividends paid per share	\$5.00	\$-	\$-	\$25.00	\$-
Dividends paid	\$20,948	\$-	\$-	\$116,110	\$-

Weighted average shares used in computing net income per share

Basic	4,181	4,172	4,430	4,486	4,450
Diluted	4,221	4,206	4,463	4,588	4,605

Balance Sheet Data at End of Fiscal Year:

Working capital	\$53,702	\$56,763	\$49,779	\$61,328	\$35,378
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Total assets	\$80,091	\$78,125	\$71,549	\$84,389	\$56,135
Long-term debt, net (3)	\$144,758	\$131,475	\$130,266	\$129,140	\$-
Stockholders' (deficit) equity	\$(84,568)	\$(66,491)	\$(72,336)	\$(59,908)	\$43,897

Supplemental Non-GAAP information (4):

EBITDA (5)	\$19,055	\$27,766	\$26,269	\$21,474	\$14,853
Adjusted EBITDA (6)	\$29,115	\$28,348	\$27,155	\$22,497	\$13,350

Selected Restaurant Operating Data:

Company-owned restaurant sales (2)(3)	\$14,085	\$14,646	\$16,222	\$15,412	\$12,816
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Number of Units Open at End of Fiscal Year:

Company-owned restaurants	5	5	5	5	5
Franchised	276	279	259	296	324

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 25, 2018, March 26, 2017, March 27, 2016, March 29, 2015 and March 30, 2014 were each on the basis of a 52-week reporting period.

(2) 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. 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. Additionally, our Oceanside restaurant was also temporarily closed from January 4, 2015 until March 25, 2015 due to its relocation. These three events significantly impacted our results of operations and the comparability of restaurant operations during the fiscal 2015 and fiscal 2014 periods reported.

Represents \$150.0 million outstanding debt net of unamortized debt issuance costs of \$5,242 at March 25, 2018 (3) and \$135.0 million outstanding debt net of unamortized debt issuance costs of \$3,525, \$4,734 and \$5,860 at March 26, 2017, March 27, 2016 and March 29, 2015, respectively.

(4) The Company has provided EBITDA and Adjusted EBITDA that the Company believes will impact the comparability of its results of operations. The Company believes that EBITDA and Adjusted EBITDA are useful to investors to assist in assessing and understanding the Company's operating performance and underlying trends in the Company's business because EBITDA and Adjusted EBITDA are (i) among the measures used by management in evaluating performance and (ii) are frequently used by securities analysts, investors and other interested parties as a common performance measure. EBITDA and Adjusted EBITDA are not recognized terms under US GAAP and should not be viewed as alternatives to net income (loss) or other measures of financial performance or liquidity in conformity with US GAAP. Additionally, our definitions of EBITDA and Adjusted EBITDA may differ from other companies. Analysis of results and outlook on a non-US GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with US GAAP.

- (5) EBITDA represents net income adjusted for the reversal of (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense.

- (6) Adjusted EBITDA represents EBITDA adjusted for the reversal of (i) share-based compensation; (ii) amortization of bond premium on available-for-sale investments; (iii) insurance gain in fiscal 2014, (iv) loss on debt extinguishment, and (v) impairment charges on long-lived assets in fiscal 2018 and long-term investment in fiscal 2016 and 2014.

Reconciliation of GAAP and Non-GAAP Measures

The following is provided to supplement certain Non-GAAP financial measures discussed in the Selected Financial Data presented above.

In addition to disclosing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"), the Company has provided EBITDA excluding (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA excluding (i) loss on debt extinguishment, (ii) impairment charge on long-lived assets, (iii) share-based compensation; (iv) amortization of bond premium on the Company's available-for sale investments; (v) insurance gain and (vi) impairment charge on long-term investment that the Company believes will impact the comparability of its results of operations.

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

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

(In thousands)	Fiscal Year (1)				
	2018	2017	2016	2015	2014
Net income	2,630	7,485	6,096	11,703	8,327
Interest expense	13,591	14,665	14,630	816	135
Income taxes	1,482	4,319	4,288	7,702	5,234
Depreciation & amortization	1,352	1,297	1,255	1,253	1,157
EBITDA	19,055	27,766	26,269	21,474	14,853
Loss on debt extinguishment	8,872	-	-	-	-
Impairment charge long-lived assets	790	-	-	-	-
Share-based compensation	398	582	722	859	721

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Impairment charge long-term investment	-	-	100	-	400
Amortization of bond premium	-	-	64	164	150
Insurance gain	-	-	-	-	(2,774)
ADJUSTED EBITDA	29,115	28,348	27,155	22,497	13,350

(1) Our fiscal year ends on the last Sunday in March which results in a 52- 53-week year. The fiscal years ended March 25, 2018, March 26, 2017, March 27, 2016, March 29, 2015 and March 30, 2014 consisted of 52 weeks.

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

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. Our Branded Menu Program is a limited franchise program, under which foodservice operators may sell a greater variety of Nathan’s Famous menu items than under the Branded Product Program.

Our revenues are generated primarily from selling products under Nathan’s Branded Product Program, restaurant operations consisting of Company-owned restaurants and franchising the Nathan’s restaurant concept (including under the Branded Menu Program) and product 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. For further information, please see Note K – Segment Information in the accompanying financial statements.

The following summary reflects the franchise openings and closings of the Nathan’s franchise system for the fiscal years ended March 25, 2018, March 26, 2017, March 27, 2016, March 29, 2015, and March 30, 2014.

	March 25, 2018	March 26, 2017	March 27, 2016	March 29, 2015	March 30, 2014
Franchised restaurants operating at the beginning of the period	279	259	296	324	303
Franchised restaurants opened during the period	40	53	56	36	56
Franchised restaurants closed during the period	(43)	(33)	(93)	(64)	(35)
Franchised restaurants operating at the end of the period	276	279	259	296	324

At March 25, 2018, our franchise system consisted of 276 Nathan’s franchised units located in 20 states, and 12 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 25, 2018, 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 are substantially dependent on our agreement with John Morrell & Co. 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, and (ii) John Morrell & Co. will have a sufficient supply of products available for our customers on a timely basis, as well as the risks described under "Risk Factors - - Our licensing revenue is substantially dependent on our agreement with John Morrell & Co. and the loss or a significant reduction of this revenue would have a material adverse effect on our financial condition and results of operations."

Our future operating results could be impacted by supply constraints on beef prices and/or increases in beef prices.

On November 1, 2017, the Company completed the issuance of \$150.0 million of 6.625% Senior Secured Notes due 2025 (the "2025 Notes") in a private offering in accordance with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The 2025 Notes were issued pursuant to an indenture, dated November 1, 2017, (the "Indenture") by and among the Company, certain of its wholly-owned subsidiaries, as guarantors, and U.S. Bank National Association, as trustee and collateral trustee. The Company used the net proceeds of the 2025 Notes offering to satisfy and discharge the indenture relating to the 2020 Notes (as hereinafter defined) and redeem the 2020 Notes (the "Redemption"), paid a portion of a special \$5.00 per share cash dividend to Nathan's stockholders of record (*see Note M.1* of the Notes to Consolidated Financial Statements), with the remaining net proceeds for general corporate purposes, including working capital. The Company also funded the majority of the special dividend through its existing cash. The Redemption occurred on November 16, 2017. The Company performed the required evaluation of the refinancing and determined that a portion of the Redemption of the 2020 Notes is accounted for as a modification of the debt and a portion as an extinguishment of the debt. In connection with the Redemption, the Company recorded a loss on early extinguishment of debt of \$8,872,000 that primarily reflects a portion of the premium paid to redeem the 2020 Notes and the write-off of certain debt issuance costs.

On March 10, 2015, the Company completed the issuance of \$135.0 million of 10.000% Senior Secured Notes due 2020 ("the 2020 Notes") in a Rule 144A transaction. The 2020 Notes were issued pursuant to an indenture, dated March 10, 2015, by and among the Company, certain of its wholly-owned subsidiaries, as guarantors, and U.S. Bank National Association, a national banking association, as trustee and collateral trustee. Debt issuance costs of approximately \$5,985,000 were incurred, which were being amortized into interest expense over the remaining 5-year term of the 2020 Notes, or until redeemed.

Our future results could also be impacted by our interest obligations under the 2025 Notes. As a result of the issuance of the 2025 Notes, Nathan's expects to incur interest expense of \$9,937,500 per annum and annual amortization of debt issuance costs of approximately \$690,000. The Indenture governing the Notes imposes operating and other restrictions on us.

During the fiscal year ended March 25, 2018, we paid interest of \$6,750,000 on September 15, 2017 for the 2020 Notes and paid interest of \$2,287,500 in connection with the satisfaction of the 2020 Notes.

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.

Beginning in the first quarter Fiscal 2019, Nathan's will adopt ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" which changes the way in which franchise fees are recognized. ASC 606 requires franchise and development fees to be earned ratably over the term of the agreement. (See "New Accounting Pronouncements Not Yet Adopted" and Note B.21 of the Notes to Consolidated Financial Statements for further discussion on the impact on Nathan's.)

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, have historically been 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 has historically been recognized, with an appropriate provision for estimated uncollectible 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 was dependent on the number of locations, then the development fee is deferred and was 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 royalty 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 or based upon product purchased by these 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 collectability based upon historical trends and an evaluation of the impact of current and projected economic conditions. In the event that the collectability 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 25, 2018, March 26, 2017 and March 27, 2016.

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. Each reporting period, management reviews the carrying value of its investments based upon the financial information provided by the investment's management and considers whether indicators of an other-than-temporary impairment exists. 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.

Impairment losses are recorded on long-lived assets on a restaurant-by-restaurant basis whenever impairment factors are determined to be present. The Company tests the recoverability of its long-lived assets with finite useful lives whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company tests for recoverability based on the projected undiscounted cash flows to be derived from such asset. If the projected undiscounted future cash flows are less than the carrying value of the asset, the Company will record an impairment loss, if any, based on the difference between the estimated fair value and the carrying value of the asset. The Company generally measures fair value by considering discounted estimated future cash flows from such asset. Cash flow projections and fair value estimates require significant estimates and assumptions by management. Should the estimates and assumptions prove to be incorrect, the Company may be required to record impairments in future periods and such impairments could be material. The Company considers a history of restaurant operating losses to be its primary indicator of potential impairment for individual restaurant locations. At March 25, 2018, we performed our annual impairment evaluation and recorded an impairment charge of \$790,000 to write down the value of the long-lived assets at one of our restaurants. No long-lived assets were deemed impaired during the fiscal years ended March 26, 2017 and March 27, 2016.

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 annually performed our evaluation of whether indicators of impairment existed, and determined that an other-than-temporary impairment has occurred and recorded impairment charges of \$100,000 and \$400,000 on this investment during the fifty-two week periods ended March 27, 2016 and March 30, 2014, respectively. We have not recognized any further impairment on our long-term investments during the fifty-two week period ended March 25, 2018.

Stock-Based Compensation

As discussed in Note M.2 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 July 2015, the Financial Accounting Standards Board ("FASB") updated U.S. accounting guidance to simplify the ways businesses measure inventory. Companies that use the first-in, first-out (FIFO) method or the average cost method will measure inventory at the lower of its cost or net realizable value. Net realizable value is the estimated selling price in the normal course of business, minus the cost of completion, disposal, and transportation. Companies will no longer consider replacement cost or net realizable value less a normal profit margin when measuring inventory. The guidance was effective for the Company beginning in the quarter ended June 25, 2017 and did not have a material impact on its results of operations or financial position.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*”. This update addresses eight specific cash flow topics with the objective of reducing the existing diversity in practice for certain aspects under Topic 230. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company elected to early adopt ASU 2016-15 during the quarter ending December 24, 2017. The adoption of this guidance did not have a significant impact on the Company’s consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued a new accounting standard ASU No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”, that attempts to establish a uniform basis for recording revenue to virtually all industries’ financial statements. The revenue standard’s core principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. Additionally, the new guidance requires enhanced disclosure to help financial statement users better understand the nature, amount, timing and uncertainty of the revenue recorded.

Public companies were originally expected to apply the new standard for annual periods beginning after December 15, 2016. However, the FASB agreed to delay the standard’s effective date to annual reporting periods beginning after December 15, 2017. The Company will adopt the standard commencing our first quarter (June 2018) of our fiscal year ending March 31, 2019.

There are two basic transition methods that are available – full retrospective, or modified retrospective transition methods. We will adopt the standards using the modified retrospective approach.

The Company has determined that this standard will not impact the recognition of revenue for its Company-owned restaurants, the revenues from its Branded Product Program or its recognition of royalties from its franchised restaurants or retail licenses, which are based on a percentage of sales.

The new standard will change how the Company records initial restaurant fees from franchisees, renewal fees and international development fees. Through March 25, 2018, we recognized these fees in full when the related services have been provided, which was when a store opened or when renewal options become effective. We also recorded international development fees, net of direct expenses, upon the completion of all of Nathan's obligations, typically upon the opening of the first unit in the respective country.

The standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation would then be recognized as the performance obligations are satisfied. The services we provide related to upfront fees we receive from franchisees do not contain separate and distinct performance obligations from the franchise right and as of March 26, 2018, initial restaurant fees, renewal fees and international development fees shall be recognized over the term of the respective agreement.

Upon adoption, we expect to record deferred revenue for the unamortized portion of fees received on behalf of the then operating franchise agreements of \$2,735,000, net deferred tax assets of \$731,000 and a cumulative effect adjustment to increase accumulated deficit by approximately \$2,004,000 on our Consolidated Balance Sheet.

The adoption of the new guidance will also change the reporting of advertising fund contributions from franchisees and the related advertising fund expenditures, which are not currently included in the Consolidated Statements of Earnings, but are reported on the Consolidated Balance Sheet. The new guidance requires these advertising fund contributions and expenditures to be reported on a gross basis in the Consolidated Statements of Earnings, which will impact our total revenues and expenses although we do not expect a material impact on net income as the fund is managed such that revenues and expenses are generally offsetting over the year. If the new guidance had been in effect during fiscal 2018, consolidated revenues would have increased by approximately \$2,500,000.

We are finalizing the impact of the standards on our disclosures of the Company's revenues. Further, we are currently implementing internal controls related to the recognition and presentation of the Company's revenues under these new standards.

In February 2016, the FASB issued a new accounting standard on leases. The new standard, among other changes, will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be

measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs (e.g. commissions). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. This standard is required to take effect in Nathan's first quarter (June 2019) of our fiscal year ending March 29, 2020. The adoption currently requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest period presented. In March 2018, the FASB has tentatively approved an exposure draft which provides an alternative transition method of adoption that permits the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption. The Company is currently evaluating the transition methods of the standard to determine the impact of the adoption on its consolidated financial statements but expects that the standard will result in a significant increase to its other assets and other liabilities.

In January 2017, the FASB issued a new accounting standard that narrows the definition of a business. The concept is fundamental in determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU revised the definition of a business to consist of the following key concepts:

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

To be capable of being conducted and managed for the purposes described above, an integrated set of activities and assets requires two essential elements—inputs and a substantive process(es) applied to those inputs.

The amendment is effective prospectively for public business entities for annual reporting periods beginning after December 15, 2017. This standard is required to take effect in Nathan's first quarter ending (June 2018) of our fiscal year ending March 31, 2019. The Company does not expect this new accounting standard will have a material effect on the Company's results of operations, cash flows or financial position. Early adoption is permitted when certain criteria are met.

In January 2017, the FASB issued an update to the accounting guidance to simplify the testing for goodwill impairment. The update removes the requirement to determine the implied fair value of goodwill to measure the amount of impairment loss, if any, under the second step of the current goodwill impairment test. A company will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment charge will be recognized for the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of the goodwill. The guidance is effective prospectively for public business entities for annual reporting periods beginning after December 15, 2019. This standard is required to take effect in Nathan's first quarter (June 2020) of our fiscal year ending March 28, 2021. Nathan's does not expect the adoption of this new guidance to have a material impact on its 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.

Results of Operations

Fiscal year ended March 25, 2018 compared to fiscal year ended March 26, 2017

Revenues

Total sales were \$76,708,000 for the fifty-two weeks ended March 25, 2018 ("fiscal 2018 period") as compared to \$70,820,000 for the fifty-two weeks ended March 26, 2017 ("fiscal 2017 period"). Foodservice sales from the Branded Product Program were \$62,623,000 for the fiscal 2018 period as compared to sales of \$55,960,000 in the fiscal 2017 period. During the fiscal 2018 period, the volume of business increased by approximately 9.4%. As result of our pricing strategy, which is more closely correlated to the cost of beef which increased by approximately 7.2%, our average selling prices were higher by approximately 1.8% during the fiscal 2018 period as compared to the fiscal 2017 period. Total Company-owned restaurant sales were \$14,085,000 during the fiscal 2018 period compared to \$14,646,000 during the fiscal 2017 period due primarily to lower sales at our Coney Island location. Sales at our Company-owned restaurants were unfavorably affected during the fiscal 2018 period due primarily to unfavorable summer weather conditions. Direct retail sales also decreased \$214,000 during the fiscal 2018 period as compared to the fiscal 2017 period as we transitioned this business into our Branded Product Program during the second quarter of fiscal 2017.

License royalties were \$23,020,000 in the fiscal 2018 period as compared to \$20,368,000 in the fiscal 2017 period. Total royalties earned on sales of hot dogs from our license agreement with John Morrell & Co. at retail and foodservice, substantially from sales of hot dogs to Sam's Club, increased to \$20,833,000 for the fiscal 2018 period as compared to \$18,424,000 for the fiscal 2017 period. The increase is due to a 9.3% increase in volume during the fiscal 2018 period as compared to the fiscal 2017 period. Average selling prices, on which our royalties are calculated,

increased by 4.5% due to pricing increases during the fourth quarter. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$243,000 during the fiscal 2018 period as compared to the fiscal 2017 period.

Franchise fees and royalties were \$4,473,000 in the fiscal 2018 period as compared to \$5,068,000 in the fiscal 2017 period. Total royalties were \$4,138,000 in the fiscal 2018 period as compared to \$4,290,000 in the fiscal 2017 period. Royalties earned under the Branded Menu program were \$1,008,000 in the fiscal 2018 period as compared to \$955,000 in the fiscal 2017 period. 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 \$3,130,000 in the fiscal 2018 period as compared to \$3,335,000 in the fiscal 2017 period. Franchise restaurant sales decreased to \$69,838,000 in the fiscal 2018 period as compared to \$74,553,000 in the fiscal 2017 period primarily due to the impact of units closed in the previous year, and a 1.5% decline in comparable domestic sales. Comparable domestic franchise sales (consisting of 86 Nathan's outlets, excluding sales under the Branded Menu Program) were \$50,496,000 in the fiscal 2018 period as compared to \$51,274,000 in the fiscal 2017 period.

At March 25, 2018, 276 franchised outlets, including domestic, international and Branded Menu Program outlets were operating as compared to 279 franchised outlets, including domestic, international and Branded Menu Program outlets at March 26, 2017. Total franchise fee income was \$335,000 in the fiscal 2018 period as compared to \$778,000 in the fiscal 2017 period. Domestic franchise fee income decreased to \$155,000 in the fiscal 2018 period as compared to \$268,000 in the fiscal 2017 period due primarily to the difference in the types of locations opened, and associated fees earned, between the two periods. International franchise fee income decreased to \$133,000 in the fiscal 2018 period as compared to \$470,000 in the fiscal 2017 period due to the timing of new international development. We also recognized \$47,000 and \$40,000 in forfeited fees in the fiscal 2018 and fiscal 2017 periods, respectively. During the fiscal 2018 period, 40 new franchised outlets opened, including 16 international locations, and 19 Branded Menu Program outlets. During the fiscal 2017 period, 53 new franchised outlets opened, including 20 international locations, and 26 Branded Menu Program outlets.

Costs and Expenses

Overall, our cost of sales increased by \$7,118,000 to \$58,752,000 in the fiscal 2018 period as compared to \$51,634,000 in the fiscal 2017 period. Our gross profit (representing the difference between sales and cost of sales) was \$17,956,000 or 23.4% of sales during the fiscal 2018 period as compared to \$19,186,000 or 27.1% of sales during the fiscal 2017 period. The margin decline was primarily due to the higher cost of beef in the Branded Products Program and in the Company-operated restaurants, in addition to the higher labor costs at the Company-owned restaurants.

Cost of sales in the Branded Product Program increased by approximately \$7,306,000 during the fiscal 2018 period as compared to the fiscal 2017 period, primarily due to the 9.4% increase in volume of product sold and the 7.2% increase in the average cost per pound of our hot dogs. During the fiscal 2017 period, we completed our purchase of approximately 662,000 lbs. of hot dogs pursuant to the open purchase commitment, representing approximately 3.2% of volume, which reduced our overall cost of hot dogs by approximately 36 BPS. We did not make any purchases during the fiscal 2018 period pursuant to any purchase commitment. If the cost of beef and beef trimmings increases and we are unable to pass on these higher costs through price increases or otherwise reduce any increase in our costs through the use of purchase commitments, our margins will be adversely impacted.

With respect to Company-owned restaurants, our cost of sales during the fiscal 2018 period was \$8,030,000 or 57% of restaurant sales, as compared to \$8,022,000 or 54.8% of restaurant sales in the fiscal 2017 period due primarily to lower revenues and higher labor costs principally associated with the effects of the New York State minimum wage increase. We expect that our future labor costs will continue to be impacted by the multi-year new increase in minimum wage requirements in New York State, as well as other new labor regulations and any increase in food costs from higher commodity costs.

Restaurant operating expenses were \$3,506,000 in the fiscal 2018 period as compared to \$3,386,000 in the fiscal 2017 period. The increase in restaurant operating costs results primarily from higher occupancy, insurance and other costs.

Depreciation and amortization was \$1,352,000 in the fiscal 2018 period compared to \$1,297,000 in the fiscal 2017 period.

General and administrative expenses decreased \$168,000 or 1.2% to \$13,491,000 in the fiscal 2018 period as compared to \$13,659,000 in the fiscal 2017 period. The decrease in general and administrative expenses was primarily attributable to reduced marketing and promotional activities in connection with the commemoration of our 100th anniversary during the fiscal 2017 period, partly offset by higher marketing expenses for our Branded Product Program and professional fees during the fiscal 2018 period.

Other Items

On November 1, 2017, the Company completed the issuance of \$150,000,000 of the 2025 Notes. The 2025 Notes were issued pursuant to the Indenture by and among the Company, certain of its wholly-owned subsidiaries, as guarantors, and U.S. Bank National Association, as trustee and collateral trustee. The Company used the net proceeds of the 2025 Notes offering to satisfy and discharge the Indenture relating to the 2020 Notes and the Redemption, paid a portion of a special \$5.00 per share cash dividend to Nathan's stockholders of record (see Note M.1), with the remaining net proceeds for general corporate purposes, including working capital. The Redemption occurred on November 16, 2017. The Company performed the required evaluation of the refinancing and determined that a portion of the Redemption of the 2020 Notes is accounted for as a modification of the debt and a portion as an extinguishment of the debt. In connection with the Redemption, the Company recorded a loss on early extinguishment of debt of \$8,872,000 that primarily reflects a portion of the premium paid to redeem the 2020 Notes and the write-off of certain debt issuance costs.

Interest expense of \$13,591,000 in the fiscal 2018 period represents interest of \$8,574,000 on the 2020 Notes, \$3,948,000 accrued interest on the 2025 Notes and total amortization of debt issuance costs of \$1,069,000. On November 1, 2017, the Company issued the 2025 Notes and the Redemption occurred on November 16, 2017. The Company incurred additional interest expense of approximately \$562,500 from the time the 2025 Notes closed until the Redemption. As a result of the issuance of the 2025 Notes and the Redemption, the Company expects to reduce its annual interest expense by approximately \$4,068,000 per annum.

Impairment charge – long-lived assets of \$790,000 in the fiscal 2018 period represents write-down of one restaurant based upon the Company's evaluation of its ability to recover its investment from future cash flows.

Interest income was \$166,000 in the fiscal 2018 period as compared to \$104,000 in the fiscal 2017 period. Nathan's established its interest bearing money market account during fiscal 2017 period.

Other income, which primarily relates to a sublease of a franchised restaurant, was \$99,000 in the fiscal 2018 period, as compared to \$85,000 in the fiscal 2017 period.

Provision for Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law, which reduced corporate income tax rates to 21% effective January 1, 2018. Nathan's has determined that its blended federal income tax rate for fiscal 2018 will be 31%. Fiscal year taxpayers are required to determine their final tax rate by prorating the federal tax rate prior to enactment and prorating the new rate for the balance of the fiscal year to determine the blended federal tax rate for the fiscal year.

The income tax provision for the fifty-two week periods ended March 25, 2018 and March 26, 2017 reflect effective tax rates of 36.0% and 36.6%, respectively. Nathan's effective tax rate for the fifty-two week periods ended March 25, 2018 and March 26, 2017 were reduced by 4.2% and 5.6%, respectively, as a result of the tax benefits associated with stock compensation. For the fifty-two weeks ended March 25, 2018, excess tax benefits of \$173,000 were reflected in the Consolidated Statements of Earnings as a reduction to the provision for income taxes. The amount of unrecognized tax benefits at March 25, 2018 was \$263,000, all of which would impact Nathan's effective tax rate, if recognized. Nathan's has determined reasonable estimates to its deferred assets and liabilities and pursuant to ASC 740, Income Taxes, the Company has recognized the effect(s) of the Act on current and deferred income taxes in its financial statements during the fiscal period ended March 25, 2018. Nathan's has completed its analysis and review of the Act and recorded the following discrete adjustment to its deferred tax liability and unrecognized tax benefits which reduced the provision for income taxes by \$245,000 or by 6.0% during the fiscal year-end March 25, 2018. As described in Note J to the Consolidated Financial Statements, Nathan's estimates that its annual tax rate for the fiscal

year ending March 31, 2019 will be in the range of approximately 27.0% to 30.0%, excluding the impact of the discrete items recorded and excess tax benefit associated with stock compensation. The final annual tax rate is subject to many variables, including the ultimate determination of revenue and income tax by state, among other factors, and therefore cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from our current estimates. As of March 25, 2018, Nathan's had \$214,000 of accrued interest and penalties in connection with unrecognized tax benefits. Nathan's estimates that its unrecognized tax benefit including accrued interest and penalties could be further reduced by up to \$6,000.

Fiscal year ended March 26, 2017 compared to fiscal year ended March 27, 2016

Revenues

Total sales were \$70,820,000 for the fifty-two weeks ended March 26, 2017 ("fiscal 2017 period") as compared to \$75,590,000 for the fifty-two weeks ended March 27, 2016 ("fiscal 2016 period"). Foodservice sales from the Branded Product Program were \$55,960,000 for the fiscal 2017 period as compared to sales of \$58,545,000 in the fiscal 2016 period. During the fiscal 2017 period, the volume of business increased by approximately 4.6%. However, as a result of our pricing strategy, which is more closely correlated to the cost of beef which declined by approximately 13.9%, our average selling prices were lowered by approximately 8.2% during the fiscal 2017 period as compared to the fiscal 2016 period. Total Company-owned restaurant sales were \$14,646,000 during the fiscal 2017 period compared to \$16,222,000 during the fiscal 2016 period due primarily to lower sales at both Coney Island locations. Sales at our Company-owned restaurants were unfavorably affected during the fiscal 2017 period due primarily to unfavorable summer weather conditions, in addition to the rain and unseasonably cool weather during April and May 2016, as compared to weather conditions in 2015. Moreover, sales at our Coney Island locations in the fiscal 2016 period were the highest on record. Direct retail sales also decreased \$608,000 during the fiscal 2017 period as compared to the fiscal 2016 period as we began to transition this business into our Branded Product Program during the second quarter of fiscal 2017.

License royalties were \$20,368,000 in the fiscal 2017 period as compared to \$19,815,000 in the fiscal 2016 period. Total royalties earned on sales of hot dogs from our license agreement with John Morrell & Co. at retail and foodservice, substantially from sales of hot dogs to Sam's Club, increased to \$18,424,000 for the fiscal 2017 period as compared to \$17,975,000 for the fiscal 2016 period. The increase is due to a 7.3% increase in volume during the fiscal 2017 period as compared to the fiscal 2016 period. The increased volume was partially offset by a 4.0% decline in average selling prices, on which our royalties are calculated, due to competitor pricing pressures experienced early in the second quarter. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$104,000 during the fiscal 2017 period as compared to the fiscal 2016 period.

Franchise fees and royalties were \$5,068,000 in the fiscal 2017 period as compared to \$5,044,000 in the fiscal 2016 period. Total royalties were \$4,290,000 in the fiscal 2017 period as compared to \$4,293,000 in the fiscal 2016 period. Royalties earned under the Branded Menu program were \$955,000 in the fiscal 2017 period as compared to \$1,000,000 in the fiscal 2016 period. This decline was primarily attributable to the full year impact of the K-Mart closures and to declines in our sporting venues during the third quarter of fiscal 2017, including the significant decrease of post season baseball in venues where our products are sold. 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 \$3,335,000 in the fiscal 2017 period as compared to \$3,293,000 in the fiscal 2016 period. Franchise restaurant sales increased to \$74,553,000 in the fiscal 2017 period as compared to \$73,276,000 in the fiscal 2016 period primarily due to the impact of new restaurant openings during the previous fiscal year. Comparable domestic franchise sales (consisting of 86 Nathan's outlets, excluding sales under the Branded Menu Program) were \$51,288,000 in the fiscal 2017 period as compared to \$53,027,000 in the fiscal 2016 period.

Total franchise fee income was \$778,000 in the fiscal 2017 period as compared to \$751,000 in the fiscal 2016 period. Domestic franchise fee income was \$268,000 in the fiscal 2017 period as compared to \$394,000 in the fiscal 2016 period due primarily to the difference in the types of locations opened, and associated fees earned, between the two periods. International franchise fee income was \$470,000 in the fiscal 2017 period as compared to \$299,000 in the fiscal 2016 period due to the timing of new international development. We also recognized forfeited fees of \$40,000 during the fiscal 2017 period and \$58,000 during the fiscal 2016 period. During the fiscal 2017 period, 53 new franchised outlets opened, including 20 international locations and 26 Branded Menu Program outlets. During the fiscal 2017 period we opened our first four units in Kyrgyzstan, two units in Kazakhstan and one unit in the Philippines pursuant to new development agreements. Additionally, we opened five units in Russia, four units in Australia, two units in Panama, one unit in Malaysia and one unit in Turkey. During the fiscal 2016 period, 56 new franchised outlets opened, including 25 international locations, and 22 Branded Menu Program outlets. During the fiscal 2016 period we opened our first two units in Panama and Australia pursuant to new development agreements. Additionally, we opened 17 units in Russia, 2 units in Malaysia, one unit in Costa Rica and one unit in the Dominican Republic.

Costs and Expenses

Our cost of sales decreased by \$5,923,000 to \$51,634,000 in the fiscal 2017 period as compared to \$57,557,000 in the fiscal 2016 period. Our gross profit (representing the difference between sales and cost of sales) was \$19,186,000 or 27.1% of sales during the fiscal 2017 period as compared to \$18,033,000 or 23.9% of sales during the fiscal 2016 period. The margin improvement was primarily due to the lower cost of beef in the Branded Products Program and in the Company-operated restaurants which was partly offset by higher restaurant and labor costs.

Cost of sales in the Branded Product Program decreased by approximately \$4,748,000 during the fiscal 2017 period as compared to the fiscal 2016 period, primarily due to the 14.2% decrease in the average cost per pound of our hot dogs partly offset by the higher volume of product sold. During the fiscal 2017 period, we completed our purchase of hot dogs pursuant to an open purchase commitment entered into during the fiscal 2016 period, which reduced our overall cost of hot dogs by approximately 29 BPS. We did not make any purchases during the fiscal 2017 period pursuant to any purchase commitment. If the cost of beef and beef trimmings increases and we are unable to pass on these higher costs through price increases or otherwise reduce any increase in our costs through the use of purchase commitments, our margins will be adversely impacted.

With respect to Company-owned restaurants, our cost of sales during the fiscal 2017 period was \$8,022,000 or 57.0% of restaurant sales, as compared to \$8,712,000 or 53.7% of restaurant sales in the fiscal 2016 period due primarily to lower revenues and higher labor costs principally associated with the effects of the New York State minimum wage increase, partly offset by lower food and incentive compensation costs at our Company-owned restaurants. We expect that our labor costs going forward will continue to be impacted by the multi-year new increase in minimum wage requirements in New York State and any increase in food costs from higher commodity costs.

Restaurant operating expenses were \$3,386,000 in the fiscal 2017 period as compared to \$3,557,000 in the fiscal 2016 period. The decrease in restaurant operating costs results primarily from the reduction in percentage rent at our Boardwalk restaurant, lower credit card processing fees, maintenance and related costs at our restaurants and utilities. Despite the recent stability in our utility costs, we continue to be concerned about the volatile market conditions for oil and natural gas.

Depreciation and amortization was \$1,297,000 in the fiscal 2017 period compared to \$1,255,000 in the fiscal 2016 period.

General and administrative expenses increased \$542,000 or 4.2% to \$13,659,000 in the fiscal 2017 period as compared to \$13,117,000 in the fiscal 2016 period. The increase in general and administrative expenses was primarily attributable to our marketing and promotional activities in commemoration of our 100th anniversary, costs of additional marketing and development personnel and higher proxy and related expenses partly offset by lower incentive compensation.

Other Items

Interest income was \$104,000 in the fiscal 2017 period as compared to \$52,000 in the fiscal 2016 period.

Other income, which primarily relates to a sublease of a franchised restaurant, was \$85,000 in the fiscal 2017 period, as compared to \$99,000 in the fiscal 2016 period.

Interest expense of \$14,665,000 in the fiscal 2017 period represents interest of \$13,456,000 on the 2020 Notes and amortization of debt issuance costs of \$1,209,000 during the same period. As a result of the issuance of the 2020 Notes, Nathan's expects to incur interest expense of approximately \$13,500,000 per annum and annual amortization of debt issuance costs of approximately \$1,200,000.

The Company recognized an, other-than-temporary impairment charge on its long-term investment of \$100,000 in the fiscal 2016 period based on management's assessment of the future recoverability of the investments.

Provision for Income Taxes

In the fiscal 2017 period, the income tax provision was \$4,319,000 or 36.6% of earnings before income taxes as compared to \$4,288,000 or 41.3% of earnings before income taxes in the fiscal 2016 period. Nathan's effective tax rate was reduced by 5.6% during the fiscal 2017 period as a result of a discrete tax benefit associated with the stock compensation in connection with the accounting guidance that was adopted by the Company in the first quarter of the fiscal 2017 period. During the fiscal 2017 period, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$63,000, which lowered the effective tax rate by 1.0%. These favorable tax benefits were partially offset by an unfavorable discrete adjustment of a prior years' tax position which increased Nathan's effective tax rate during the fiscal 2017 period by 1.0%. During the fiscal 2016 period, Nathan's resolved certain uncertain tax positions, reducing the associated unrecognized tax benefits, along with the related accrued interest and penalties, by approximately \$184,000, which lowered the effective tax rate by 1.8%. Additionally, during the fiscal 2016 period, Nathan's effective tax rate increased by approximately 1.0% due to limitations associated with its tax exempt investments. Nathan's effective tax rates without these adjustments would have been 42.1% for the fiscal 2017 period and 40.5% for the fiscal 2016 period.

Off-Balance Sheet Arrangements

At March 25, 2018 and March 26, 2017, Nathan's did not have any open purchase commitment to purchase hot dogs. Nathan's may continue to enter into additional purchase commitments in the future as favorable market conditions become available.

Liquidity and Capital Resources

Cash at March 25, 2018 aggregated \$57,339,000, a \$424,000 increase during the fiscal 2018 period compared to cash of \$56,915,000 at March 26, 2017. Net working capital decreased to \$53,702,000 from \$56,763,000 at March 26, 2017, which primarily relates to the special dividend of approximately \$20,923,000 that was paid to shareholders on January 4, 2018.

On November 1, 2017, the Company issued the 2025 Notes and used the majority of the proceeds for the Redemption, paid a portion of the special \$5.00 cash dividend and will use any remaining proceeds for general corporate purposes, including working capital. Our future results could also be impacted by our obligations under the 2025 Notes, as well as the new limitation on the deduction of interest expense under the Tax Act. As a result of the issuance of the 2025 Notes, Nathan's expects to incur interest expense of \$9,937,500 per annum, reducing its debt service requirements by \$4,068,000 per annum. Nathan's expects to incur annual amortization of debt issuance costs of approximately \$690,000. Please refer to Note L – Long Term Debt of the Notes to the Consolidated Financial Statements, for the effects of the Company's refinancing from the preceding consolidated financial statements.

On March 10, 2015, we issued the 2020 Notes and paid a dividend of \$25.00 per share (or approximately \$116,100,000 in the aggregate). In connection with the 2020 Notes, Nathan's incurred interest expense of \$13,500,000 per annum and annual amortization of debt issuance costs of approximately \$1,200,000.

Nathan's used the net proceeds of the 2025 Notes offering to satisfy and discharge the Indenture relating to the Redemption on November 16, 2017, paid a portion of a special \$5.00 per share cash dividend to Nathan's stockholders of record (see Note M.1) with the remaining net proceeds for general corporate purposes, including working capital. The payment in connection with the Redemption was approximately \$144,000,000. Nathan's also funded the majority of the special dividend through its existing cash.

The Company paid a 5% call premium of \$6,750,000 associated with the Redemption and incurred debt issuance costs of \$4,908,000 in connection with the issuance of the 2025 Notes. The Company also incurred additional interest

expense of approximately \$562,500 from the closing of the 2025 Notes on November 1, 2017 until the Redemption.

The 2025 Notes bear interest at 6.625% per annum, payable semi-annually on May 1st and November 1st of each year, beginning on May 1, 2018. Semi-annual interest payments are expected to be \$4,968,750. The 2025 Notes have no scheduled principal amortization payments prior to its final maturity on November 1, 2025. As a result of the issuance of the 2025 Notes and the Redemption, the Company expects to reduce its debt service requirements by approximately \$4,068,000 per annum.

The Indenture for the 2025 Notes contains certain covenants limiting the Company's ability and the ability of its restricted subsidiaries (as defined in the Indenture) to, subject to certain exceptions and qualifications: (i) incur additional indebtedness; (ii) pay dividends or make other distributions on, redeem or repurchase, capital stock; (iii) make investments or other restricted payments; (iv) create or incur certain liens; (v) incur restrictions on the payment of dividends or other distributions from its restricted subsidiaries; (vi) enter into certain transactions with affiliates; (vii) sell assets; or (viii) effect a consolidation or merger.

The Indenture for the 2025 Notes also contains customary events of default, including, among other things, failure to pay interest, failure to comply with agreements related to the Indenture, failure to pay at maturity or acceleration of other indebtedness, failure to pay certain judgments, and certain events of insolvency or bankruptcy. Generally, if any event of default occurs, the Trustee or the holders of at least 25% in principal amount of the 2025 Notes may declare the 2025 Notes due and payable by providing notice to the Company. In case of default arising from certain events of bankruptcy or insolvency, the 2025 Notes will become immediately due and payable.

The 2025 Notes are general senior secured obligations, are fully and unconditionally guaranteed by substantially all of the Company's wholly-owned subsidiaries and rank *pari passu* in right of payment with all of the Company's existing and future indebtedness that is not subordinated, are senior in right of payment to any of the Company's existing and future subordinated indebtedness, are structurally subordinated to any existing and future indebtedness and other liabilities of the Company's subsidiaries that do not guarantee the 2025 Notes, and are effectively junior to all existing and future indebtedness that is secured by assets other than the collateral securing the 2025 Notes. Pursuant to the terms of a collateral trust agreement, the liens securing the 2025 Notes and the guarantees will be contractually subordinated to the liens securing any future credit facility.

As of March 25, 2018, Nathan's was in compliance with all covenants associated with the Notes.

The 2025 Notes and the guarantees will be the Company and the guarantors' senior secured obligations and rank:

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

effectively senior to all unsecured senior indebtedness to the extent of the value of the collateral securing the 2025 Notes and the guarantees;

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

effectively junior to any future credit facility to the extent of the value of the collateral securing any future credit facility and the 2025 Notes and the guarantees and certain other assets;

effectively junior to any of the Company and the guarantors' existing and future indebtedness that is secured by assets other than the collateral securing the 2025 Notes and the guarantees to the extent of the value of any such assets; and

structurally subordinated to the indebtedness of any of the Company's current and future subsidiaries that do not guarantee the 2025 Notes.

Cash provided by operations of \$18,862,000 in the fiscal 2018 period is primarily attributable to net income of \$2,630,000 in addition to other non-cash operating items of \$12,176,000, and increases in changes in other operating assets and liabilities of \$4,056,000. Non-cash operating items include loss on debt extinguishment of \$8,872,000, depreciation and amortization of \$1,352,000, amortization of debt issuance costs of \$1,069,000, impairment charge – long-lived assets of \$790,000 and \$173,000 of excess income tax benefits from stock-based compensation arrangements as a result of the accounting for certain aspects of its share-based payments to employees. In the fiscal 2018 period, accounts and other receivables increased by \$1,588,000 compared to the fiscal 2017 period due primarily to higher receivables from Branded Product Program sales of \$1,567,000. In the fiscal 2018 period, prepaid expenses and other current assets increased by \$1,780,000 due principally to prepaid income taxes of \$1,624,000 which were deposited prior to the successful debt refinancing. The increase in accounts payable, accrued expenses and other current liabilities of \$7,091,000 is primarily due to increased accrued interest of \$3,485,000 due to the change in timing of the semi-annual payment from March 15th to May 1st. Additionally, trade accounts payable increased by

\$1,756,000 and we received a deposit of \$1,201,000 toward the sale of a restaurant.

Cash used in investing activities was \$550,000 in the fiscal 2018 period primarily in connection with capital expenditures incurred for our Branded Product Program and select restaurant improvements.

Cash used in financing activities of \$17,888,000 in the fiscal 2018 period relates primarily to the special \$5.00 per share dividend the Company paid to its shareholders on January 4, 2018, totaling \$20,948,000. In connection with Nathan's refinancing of the 2020 Notes, the Company received gross proceeds of \$150,000,000 from the sale of 2025 Notes, repaid the 2020 Notes, and paid a call premium of \$6,750,000 in addition to \$4,908,000 of debt issuance costs. The Company also paid \$157,000 for withholding taxes on the net share vesting of employee restricted stock and dividends of \$125,000 relating to the previously declared special cash dividend in connection with the vesting of 5,000 shares of the Company's restricted stock.

During the period from October 2001 through March 25, 2018, Nathan's purchased 5,127,373 shares of its common stock at a cost of approximately \$77,303,000 pursuant to its stock repurchase plans previously authorized by the Board of Directors. Since March 25, 2008, to date, we have repurchased 3,236,273 shares at a total cost of approximately \$70,145,000, reducing the number of shares then-outstanding by 53.8%.

On March 11, 2016, the Company's Board of Directors authorized increases to the sixth stock repurchase plan for the purchase of up to 1,200,000 shares of its common stock on behalf of the Company. As of March 25, 2018, Nathan's has repurchased 939,742 shares at a cost of \$29,641,000 under the sixth stock repurchase plan. At March 25, 2018, there were 260,258 shares remaining to be repurchased pursuant to the sixth stock repurchase plan. The plan does not have a set expiration date. Purchases under the Company's stock repurchase program may be made from time to time, depending on market conditions, in open market or privately-negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases.

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

As discussed above, we had cash at March 25, 2018 aggregating \$57,339,000. Our Board routinely monitors and assesses its cash position and our current and potential capital requirements. In November 2017, we successfully refinanced \$135.0 million 10.000% Notes due 2020 with \$150.0 million 6.625% Notes due 2025 and, our Board of Directors announced the payment of a \$5.00 per share special dividend to the shareholders of record as of the close of business on December 22, 2017. On May 31, 2018, Nathans' Board of Directors authorized the commencement of a regular dividend of \$1.00 per share per annum, payable at the rate of \$0.25 per share per quarter. The initial \$0.25 dividend was declared on June 8, 2018 and will be paid on June 22, 2018 to shareholders of record at the close of business on June 18, 2018. Our ability to pay future dividends is limited by the terms of the Indenture with US Bank National Association, as trustee and collateral trustee. In addition to the terms of the Indenture, the payment of any cash dividends in the future are subject to final determination of the Board and will be dependent upon our earnings and financial requirements. We may also return capital to our shareholders through stock repurchases, subject to any restrictions in the Indenture, although there is no assurance that the Company will make any repurchases under its existing stock-repurchase plan.

Prior to the end of fiscal 2018, we entered into an agreement to sell a Company-owned restaurant located in Bay Ridge, Brooklyn, NY. We have received a \$1.2 million non-refundable deposit. We anticipate that the transaction will close during the second quarter of fiscal 2019. Pre-tax gross proceeds are estimated at \$12.25 million. Equipment of \$610,000 related to this sale has been classified as assets held for sale in our Consolidated Balance Sheet at March 25, 2018.

We expect that in the future we will make investments in certain existing restaurants, support the growth of the Branded Product and Branded Menu Programs, service the outstanding debt and continue our stock repurchase

programs, funding those investments from our operating cash flow. We may also incur capital and other expenditures or engage in investing activities in connection with opportunistic situations that may arise on a case-by-case basis. Pursuant to the Indenture, we are required to make semi-annual interest payments of \$4,968,750 on May 1st, which payment was made, and November 1st.

At March 25, 2018, we sublet one property to a franchisee that we lease from a third party. We remain contingently liable for all costs associated with this property including: rent, property taxes and insurance. We may incur future cash payments with respect to such property, consisting primarily of future lease payments, including costs and expenses associated with terminating any of such leases.

The following schedule represents Nathan's cash contractual obligations and commitments by maturity as of March 25, 2018 (in thousands):

Cash Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long term debt (a)	\$ 150,000	\$-	\$-	\$-	\$ 150,000
Employment Agreements	6,925	1,200	2,375	2,000	1,350
Dividends Payable	150	150	-	-	-
Operating Leases	11,399	1,654	2,658	2,195	4,892
Gross Cash Contractual Obligations	168,474	3,004	5,033	4,195	156,242
Sublease Income	2,099	330	641	438	690
Net Cash Contractual Obligations	\$ 166,375	\$ 2,674	\$ 4,392	\$ 3,757	\$ 155,552

a) Represents the principal due on the 2025 Notes, but does not include interest expense.

At March 25, 2018, the Company had unrecognized tax benefits of \$263,000. The Company believes that it is reasonably possible that the unrecognized tax benefits may decrease by \$3,000 within the next year. A reasonable estimate of the timing of the remaining liabilities is not practicable.

On February 27, 2017, a wholly-owned subsidiary of the Company executed a Guaranty of Lease (the "Brooklyn Guaranty") in connection with its re-franchising of a restaurant located in Brooklyn, New York. The Company is obligated to make payments under the Brooklyn Guaranty in the event of a default by the tenant/franchisee. The Brooklyn Guaranty has an initial term of 10 years and one 5-year option and is limited to 24 months of rent for the first three years of the term. Nathan's has recorded a liability of \$204,015 in connection with the Brooklyn Guaranty which does not include potential percentage rent, real estate tax increases, attorney's fees and other costs as these amounts are not reasonably determinable at this time. Nathan's has received a personal guaranty from the franchisee for all obligations under the Brooklyn Guaranty. For the remainder of the term, the Brooklyn Guaranty is limited to 12 months of rent plus reasonable costs of collection and attorney's fees.

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. From 2011 through 2014, we experienced unprecedented increases in the cost of beef. Beginning March 2015, the beef markets stabilized through June 2015 before subsequently declining by approximately 30%. As a result of the decline through March 2016, the market price of hot dogs during the fiscal year ended March 27, 2016 was approximately 7.1% lower than the fiscal 2015 period. During the fiscal 2017 period, beef prices remained favorable, and as such, our market

price for hot dogs was 17.1% lower than during the fiscal 2016 period. Despite the favorable pricing of fiscal 2017, prices began escalating in January 2017 and continued increasing through June 2017 before beginning to slightly decline until July which is when the costs stabilized through March 2018 at approximately 10% higher than the same period of the fiscal 2017 period. As such, the market price for hot dogs during our fiscal 2018 period was approximately 6.9% higher than the fiscal 2017 period. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2019. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we entered into purchase commitments for a portion of our hot dogs to reduce the impact of increasing market prices. Our most recent purchase commitment was completed for approximately 2,600,000 pounds of hot dogs at approximately \$2.01 per pound which we purchased between February and May 2016. We may attempt to enter into similar purchase arrangements for hot dogs and other products in the future. Additionally, we expect to continue experiencing volatility in oil and gas prices on our distribution costs for our food products and utility costs in the Company-owned restaurants and volatile insurance costs resulting from the uncertainty of the insurance markets.

New York State passed legislation increasing the minimum hourly wage for fast food workers of restaurant chains with 30 or more locations nationwide. The increase will be phased in differently between New York City and the rest of New York State. Effective December 31, 2017, the minimum wage increased to \$13.50 and \$11.75 in New York City and outside of New York City, respectively.

In New York City, the hourly rate of pay will increase to \$15.00 on Dec. 31, 2018.

The minimum hourly rate of pay for the remainder of New York State will increase to \$12.75 on Dec. 31, 2018; \$13.75 on Dec. 31, 2019; \$14.50 on Dec. 31, 2020; and \$15.00 on July 1, 2021.

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

The Company is further studying the impact on the Company's operations and is developing strategies and tactics, including pricing and potential operating efficiencies, to minimize the effects of these increases and future increases. We have recently increased certain selling prices to pass on recent cost of sales increases. However, if we are unable to fully offset these and future increases through pricing and operating efficiencies, our margins and profits will be negatively affected.

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

Effective December 1, 2016, changes to the Fair Labor Standards Act were to take effect until nationwide implementation was enjoined by a Federal District Court. The legislation would have increased the minimum salary threshold for overtime exemption from \$23,660 to \$47,476 per annum. Nathan's performed its evaluation of its workforce and determined that the proposed legislation is not expected to have a significant impact on our results of operations.

Effective November 27, 2017, the City of New York Fair Work Week Legislation package of bills took effect that the city estimates will cover some 65,000 fast food workers by giving them more predictable work schedules. A key component of the package is a requirement that fast food restaurants schedule their workers at least two weeks in advance or pay employees between \$10 to \$75 per scheduling change, depending on the situation. Due to Nathan's dependency on weather conditions at our two beach locations during the summer, we are unable to determine the potential impact on our results of operations, which could be material. We have estimated that the daily penalty could amount to as much as \$10,000 per day during the height of the summer season for these two restaurants.

We believe the increases in the minimum wage and other changes in employment laws could have a significant financial impact on our financial results and the results of our franchisees that operate in New York State. Our

business could be negatively impacted if the decrease in margins for our franchisees results in the potential loss of new franchisees or the closing of a significant number of franchised restaurants.

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, please 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 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 25, 2018, Nathan's cash aggregated \$57,339,000. Earnings on this cash would increase or decrease by approximately \$143,000 per annum for each 0.25% change in interest rates.

Borrowings

At March 25, 2018, we had \$150.0 million of 2025 Notes outstanding which are due in November 2025. Interest expense on these borrowings would increase or decrease by approximately \$375,000 per annum for each 0.25% change in interest rates. We currently do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings.

Commodity Costs

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. From 2011 through 2014, we experienced unprecedented increases in the cost of beef. Beginning March 2015, the beef markets stabilized through June 2015 before subsequently declining by approximately 30%. As a result of the decline through March 2016, the market price of hot dogs during the fiscal year ended March 27, 2016 was approximately 7.1% lower than the fiscal 2015 period. During the fiscal 2017 period, beef prices remained favorable, and as such, our market price for hot dogs was 17.1% lower than during the fiscal 2016 period. Despite the favorable pricing of fiscal 2017, prices began escalating in January 2017 and continued increasing through June 2017 before beginning to slightly decline until July which is when the costs stabilized through March 2018 at approximately 10% higher than the same period of the fiscal 2017 period. As such, the market price for hot dogs during our fiscal 2018 period was approximately 6.9% higher than the fiscal 2017 period. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2019. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we entered into purchase commitments for a portion of our hot dogs to reduce the impact of increasing market prices. Our most recent purchase commitment was completed for approximately 2,600,000 pounds of hot dogs at approximately \$2.01 per pound which we purchased between February and May 2016. We may attempt to enter into similar purchase arrangements for hot dogs and other products in the future. Additionally, we expect to continue experiencing volatility in oil and gas prices

on our distribution costs for our food products and utility costs in the Company-owned restaurants and volatile insurance costs resulting from the uncertainty of the insurance markets.

With the exception of purchase 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. We have attempted to enter sales agreements with our customers that are correlated to our cost of beef, thus reducing our market volatility, or have passed through permanent increases in our commodity prices to our customers that are not on formula pricing, 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 year ended March 25, 2018 would have increased or decreased our cost of sales by approximately \$5,290,000.

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 and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer, and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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 25, 2018. In making this assessment, management used the framework in Internal Control — Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment and the criteria set forth by COSO in 2013, management believes that Nathan's maintained effective internal control over financial reporting as of March 25, 2018. The effectiveness of our internal control over financial reporting as of March 25, 2018, 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 Controls

There were no changes in our internal controls over financial reporting that occurred during the quarter ended March 25, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

Item 9B. Other Information.

As disclosed in this Annual Report on Form 10-K, the Company's Board of Directors has declared a \$0.25 per share dividend payable on June 22, 2018 to shareholders of record at the close of business on June 18, 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Nathan's Famous, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Nathan's Famous, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of March 25, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 25, 2018, based on criteria established in the 2013 *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) ("PCAOB"), the consolidated financial statements of the Company as of and for the fifty-two weeks ended March 25, 2018, and our report dated June 8, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and limitations of internal control over financial reporting

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.

/s/ GRANT THORNTON LLP

New York, New York

June 8, 2018

Grant Thornton LLP

U.S. member firm of Grant Thornton International Ltd

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 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 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 2018 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 \$465,000 in respect of fiscal 2018 and \$244,000 in respect of fiscal 2017 for fees for professional services rendered for the audit of our annual financial statements and the effectiveness of our internal control over financial reporting as well as the review of our financial statements included in our Forms 10-Q. The fiscal 2018 amount includes billings by Grant Thornton LLP of approximately \$120,000 for fees for the professional services rendered for the review of interim financial information in connection with the issuance of their comfort letter in conjunction with the private placement of the Company's Senior Secured Notes.

Audit-Related Fees

Grant Thornton LLP did not render any audit-related services for fiscal 2018 and 2017 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 2018 and 2017 and, accordingly, did not bill for any such services.

All Other Fees

Grant Thornton LLP did not render any other services for fiscal 2018 and 2017 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 2018 and 2017.

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	<u>By-Laws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 8-K dated November 1, 2006.)</u>
4.1	Specimen Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-1 No. 33-56976.)
4.2	<u>Rights Agreement, dated as of June 5, 2013, between Nathan's Famous, Inc. and American Stock Transfer and Trust Company, LLC, as Rights Agent, which includes form of Rights Certificate as Exhibit A and the Summary of Rights to Purchase as Exhibit B. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report filed on Form 8-K dated June 11, 2013.)</u>
4.3	<u>Indenture, dated as of November 1, 2017, by and among Nathan's Famous, Inc., certain of its wholly owned subsidiaries, as guarantors, and U.S. Bank National Association, a National Banking Association, as trustee</u>

and collateral trustee (including the form of Note (Incorporated by reference to Exhibit 4.1 to the Company's Current Report filed on Form 8-K dated November 1, 2017.))

- 10.1 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.
- 10.2 Form of Standard Franchise Agreement. (Incorporated by reference to Exhibit 10.12 to Registration Statement on Form S-1 No. 33-56976.)
- 10.3 Intentionally omitted.
- 10.4 ***Employment Agreement with Howard M. Lorber, dated as of December 15, 2006. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 15, 2006.)
- 10.5 ***Employment Agreement with Eric Gatoff, dated as of December 15, 2006. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 15, 2006.)
- 10.6 ***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.)
- 10.7 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.)

- 10.8 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).
- 10.9 ***2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Proxy Statement on Schedule 14A dated July 23, 2010).
- 10.10 ***Amendment to 2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Proxy Statement on Schedule 14A dated July 23, 2012).
- 10.11 ***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).
- 10.12 ***Amendment Number 2, dated December 7, 2017 to Employment Agreement with Howard M. Lorber (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K dated December 6, 2017).
- 10.13 **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).
- 10.14 First Amendment to Licensing and Supply Agreement, dated September 22, 2016 between Nathan's Famous Systems, Inc. and John Morrell & Company (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 24, 2017).
- 10.15 Second Amendment to Licensing and Supply Agreement, dated June 29, 2017 between Nathan's Famous Systems, Inc. and John Morrell & Company (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 24, 2017).
- 10.16 ***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.)
- 10.17 Parity Lien Security Agreement dated as of November 1, 2017, by and among Nathan's Famous, Inc. and Other Assignors Identified therein and U.S. Bank National Association as Collateral Trustee. (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended December 24, 2017.)
- 10.18 ***2018 Management Incentive Plan for the Fiscal Year ending March 25, 2018 (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 25, 2017).
- 10.19 ***Nathan's Famous, Inc. Code Section 162(m) Bonus Plan (Incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed on July 28, 2016).
- 10.20 (1) Agreement of Sale between Nathan's Famous Operating Corp. and 660 86 LLC dated September 8, 2017.
- 10.21 (1) Amendment to Agreement of Sale between Nathan's Famous Operating Corp. and 660 86 LLC dated March 6, 2018.
- 21 (1) List of Subsidiaries of the Registrant.
- 23 (1) Consent of Grant Thornton LLP dated June 8, 2018.
- 31.1 (1) Certification by Eric Gatoff, Chief Executive Officer, pursuant to Rule 13a - 14(a).
- 31.2 (1) Certification by Ronald G. DeVos, Chief Financial Officer, pursuant to Rule 13a - 14(a).
- 32.1 (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 (1) 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.

(1) Filed herewith