



## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share amounts)

	June 29, 1997 (Unaudited)	March 30, 1997
Current assets:		
Cash and cash equivalents including restricted cash of \$280 and \$280, respectively	\$ 241	\$ 647
Marketable investment securities	7,850	7,640
Franchise and other receivables, net	1,351	1,039
Inventory	217	213
Prepaid income taxes	---	---
Prepaid expenses and other current assets	258	502
Deferred income taxes	415	415
	-----	-----
Total current assets	10,332	10,456
Property and equipment, net	5,916	5,480
Intangible assets, net	11,555	11,640
Other assets, net	192	218
	-----	-----
	\$27,995	\$27,794
	=====	=====
Current liabilities:		
Current installments of obligations under capital leases	\$ 17	\$ 17
Accounts payable	568	754
Accrued expenses and other current liabilities	4,503	4,614
Deferred franchise fees	283	269
	-----	-----
Total current liabilities	5,371	5,654
Obligations under capital leases, net of current installments	18	21
Deferred area development fees	---	---
Other liabilities	144	143
	-----	-----
Total liabilities	5,533	5,818
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value - 20,000,000 shares authorized, 4,722,216 issued and outstanding	47	47
Additional paid-in-capital	32,319	32,307
Accumulated deficit	(9,904)	(10,378)
	-----	-----
Total stockholders' equity	22,462	21,976
	-----	-----
	\$27,995	\$27,794
	=====	=====

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
THIRTEEN WEEKS ENDED JUNE 29, 1997 AND JUNE 30, 1996  
(In thousands, except per share amounts)  
(Unaudited)

	1997	1996
	----	----
Sales	\$5,907	\$5,773
Franchise fees and royalties	671	813
License royalties	405	254
Investment and other income	379	132
	-----	-----
Total revenues	7,362	6,972
	-----	-----
Costs and expenses:		
Cost of sales	3,503	3,313
Restaurant operating expenses	1,613	1,665
Depreciation and amortization	252	261
Amortization of intangible assets	96	96
General and administrative	1,103	976
Interest expense	1	2
	-----	-----
Total costs and expenses	6,568	6,313
	-----	-----
Earnings before income taxes	794	659
Provision for income taxes	320	264
	-----	-----
Net earnings	\$ 474	\$ 395
	=====	=====
Net earnings per common share	\$ 0.10	\$ 0.08
	=====	=====
Weighted average number of common and common equivalent shares outstanding	4,766	4,722
	=====	=====

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
THIRTEEN WEEKS ENDED JUNE 29, 1997  
(In thousands, except share amounts)  
(Unaudited)

	Common Shares	Common Stock	Additional Paid in- Capital	Deferred Compen- sation	Accum- ulated Deficit	Total Stock- holders' Equity
Balance, March 30, 1997	4,722,216	\$ 47	\$ 32,388	\$ ( 81)	\$(10,378)	\$21,976
Amortization of deferred compensation relating to restricted stock				12		12
Net earnings	-----	-----	-----	-----	474	474
Balance, June 29, 1997	<u>4,722,216</u>	<u>\$ 47</u>	<u>\$ 32,388</u>	<u>\$ ( 69)</u>	<u>\$( 9,904)</u>	<u>\$22,462</u>

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THIRTEEN WEEKS ENDED JUNE 29, 1997 AND JUNE 30, 1996  
(In thousands)  
(Unaudited)

	1997	1996
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 474	\$ 395
Adjustments to reconcile net earnings to net cash provided by / (used in) operating activities:		
Depreciation	252	261
Amortization of intangible assets	96	96
Provision for doubtful accounts	15	15
Other	12	11
Changes in assets and liabilities:		
Marketable investment securities	(210)	88
Franchise and other receivables	(327)	( 73)
Inventory	( 4)	( 2)
Prepaid income taxes	---	( 88)
Prepaid and other current assets	244	284
Deferred income taxes	---	---
Accounts payable and accrued expenses	(297)	(601)
Deferred franchise fees	14	37
Other assets	26	(20)
Deferred area development fees	---	(69)
Other non current liabilities	1	(16)
	-----	-----
Net cash provided by / (used in) operating activities	296	318
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(699)	( 429)
Purchase of franchise restaurant	---	---
	-----	-----
Net cash used in investing activities	(699)	( 429)
	-----	-----
Cash flows from financing activities:		
Principal repayment of obligations under capital leases	(3)	( 8)
	-----	-----
Net cash used in financing activities	(3)	( 8)
	-----	-----
Net decrease in cash and cash equivalents	(406)	( 119)
Cash and cash equivalents, beginning of period	647	801
	-----	-----
Cash and cash equivalents, end of period	\$ 241	\$ 682
	=====	=====
Cash paid during the period for:		
Interest	\$ 1	\$ 2
Income taxes	260	31

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 29, 1997

NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements of Nathan's Famous, Inc. and subsidiaries (the "Company") for the thirteen week periods ended June 29, 1997 and June 30, 1996 have been prepared in accordance with generally accepted accounting principles. The unaudited financial statements include all adjustments (consisting of normal recurring adjustments) which, in the opinion of management, were necessary for a fair presentation of financial condition, results of operations and cash flows for such periods presented. However, these results are not necessarily indicative of results for any other interim period or the full year.

Certain information and footnote disclosures normally included in financial statements in accordance with generally accepted accounting principles have been omitted pursuant to the requirements of the Securities and Exchange Commission. Management believes that the disclosures included in the accompanying interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 1997.

NOTE B - RECLASSIFICATIONS

Certain reclassifications of prior period balances have been made to conform to the June 29, 1997 presentation.

NOTE C - EARNINGS PER SHARE

Weighted average common shares outstanding for the thirteen weeks ended June 29, 1997 and June 30, 1996 were 4,765,552 and 4,722,216, respectively. Common stock equivalents for the thirteen weeks ended June 29, 1997 and June 30, 1996 were 43,336 and 0, respectively.

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

Results of Operations

Thirteen weeks ended June 29, 1997 compared to June 30, 1996

Revenues

Total sales increased 2.3% or \$134,000 to \$5,907,000 for the thirteen weeks ended June 29, 1997 ("first quarter fiscal 1998") from \$5,773,000 for the thirteen weeks ended June 30, 1996 ("first quarter fiscal 1997"). Company-owned restaurant sales increased 0.9% or \$51,000 to \$5,824,000 from \$5,773,000. Comparable unit sales (units operating for 18 months or longer as of the beginning of the fiscal year), increased by \$44,000 or 0.9% in the first quarter fiscal 1998 versus the first quarter fiscal 1997. The Company continues to emphasize the aggressive local store marketing activities and value pricing strategies that were implemented last year. Additionally, the Company has recently completed the renovation of its Yonkers, NY restaurant which is now operated as a co-branded Nathan's / Pizza Hut / TCBY. Plans are currently being developed to renovate and modernize the appearance and design of certain other units. At June 29, 1997 and June 30, 1996, there were 24 and 25 Company-owned units, respectively. Sales from the newly implemented Branded Product Program were \$83,000 for the first quarter fiscal 1998.

Franchise fees and royalties decreased by \$142,000 or 17.5% to \$671,000 in the first quarter fiscal 1998 compared to \$813,000 in the first quarter fiscal 1997. Franchise royalties decreased by \$55,000 or 8.8% to \$568,000 in the first quarter fiscal 1998 as compared to \$623,000 in the first quarter fiscal 1997. Franchise restaurant sales, upon which royalties are based, decreased by \$1,892,000, to \$13,961,000 in the first quarter fiscal 1998 as compared to \$15,853,000 in the first quarter fiscal 1997. At June 29, 1997 there were 150 franchised or licensed restaurants as compared to 175 at June 30, 1996. During the first quarter fiscal 1997, the 53 Caldor units which were subsequently closed generated sales and royalties of approximately \$2,133,000 and \$85,000, respectively. Franchise fee income decreased to \$103,000 in the first quarter fiscal 1998 as compared to \$190,000 in the first quarter fiscal 1997. During the first quarter fiscal 1998, franchisees and licensees opened 9 new units versus the first quarter fiscal 1997 in which 6 new units were opened. Higher franchise fees were earned during the first quarter fiscal 1997 than during the first quarter fiscal 1998 due primarily to the higher recognition of fees associated with expired development agreements.

License royalties increased by \$151,000 or 59.4% to \$405,000 in the first quarter fiscal 1998 as compared to \$254,000 in the first quarter fiscal 1997. The majority of this increase is a result of the Company's license arrangement with SMG, Inc., for the sale of Nathan's frankfurters in supermarkets. Of the total \$151,000 increase, approximately \$81,000 represents royalties earned from higher sales to supermarkets and \$60,000 represents amortization of the deferred fee received from SMG, Inc. in conjunction with the renegotiation of their contract commencing January 1, 1997.

Investment and other income increased to \$379,000 in the first quarter fiscal 1998 from \$132,000 in the first quarter fiscal 1997. Approximately \$128,000 of the increase is due primarily to increased earnings on the Company's marketable investment securities as a result of the change in performance of the financial markets. Additionally, the Company recognized a gain of approximately \$130,000 from the sale of an underperforming restaurant.

#### Costs and Expenses

Cost of sales increased by \$190,000 from \$3,313,000 in the first quarter fiscal 1997 to \$3,503,000 in the first quarter fiscal 1998. As a percentage of restaurant sales, cost of restaurant sales increased to 58.9% in the first quarter fiscal 1998 as compared to 57.4% in the first quarter fiscal 1997. This increase is due primarily to higher labor and associated fringe benefit costs. The Company continues to take steps to offset this margin erosion which has become necessary to remain competitive in the current marketplace.

Restaurant operating expenses decreased by \$52,000 from \$1,665,000 in the first quarter fiscal 1997 to \$1,613,000 in the first quarter fiscal 1998. This decrease can be attributed to the closure of two unprofitable restaurants in June 1996. As a percentage of restaurant sales, restaurant operating expenses were 28.8% in the first quarter fiscal 1997 as compared to 27.7% in the first quarter fiscal 1998.

Depreciation and amortization decreased by \$9,000 or 3.4% from \$261,000 in the first quarter fiscal 1997 to \$252,000 in the first quarter fiscal 1998. Amortization of intangibles of \$96,000 remained constant in both fiscal years.

General and administrative expenses increased by \$127,000 or 13.0% to \$1,103,000 in the first quarter fiscal 1998 as compared to \$976,000 in the first quarter fiscal 1997. Approximately \$75,000 of the increase relates to the effect of certain one-time benefits recognized in the first quarter fiscal 1997.

#### Income Tax Provision

In the first quarter fiscal 1998, the income tax provision was \$320,000 or 40.3% of income before income taxes. In the first quarter fiscal 1997, the income tax provision was \$264,000 or 40.1% of income before income taxes.



## Liquidity and Capital Resources

Cash and cash equivalents at June 29, 1997 aggregated \$241,000, decreasing by \$406,000 during the fiscal 1998 period. At June 29, 1997, marketable investment securities totalled \$7,850,000 and net working capital increased slightly to \$4,961,000 from March 30, 1997.

Cash provided by operations of \$296,000 in the fiscal 1998 period is primarily attributable to net income of \$474,000, non-cash charges of \$375,000, including depreciation and amortization of \$348,000, a decrease in prepaid and other current assets of \$244,000, a decrease in accounts payable and accrued expenses of \$297,000, an increase in marketable investment securities of \$210,000 and an increase in franchise and other receivables of \$327,000.

Cash used in investing activities of \$699,000 represents capital acquisitions relating to the renovation of the Company-owned restaurant in Yonkers, NY, construction of a new Company-owned unit which is expected to open in August 1997 and other fixed asset additions.

Management believes that available cash, marketable investment securities, and internally generated funds should provide sufficient capital for its planned operations and expansion program through fiscal 1998. The Company also maintains a \$5,000,000 uncommitted bank line of credit. The Company has not borrowed any funds to date under this line of credit.

PART II. OTHER INFORMATION

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) No reports on Form 8-K were filed during the quarter ended June 29, 1997.

SIGNATURES

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

NATHAN'S FAMOUS, INC.

Date: August 7, 1997      By: /s/ Wayne Norbitz  
Wayne Norbitz  
President and Chief Operating Officer  
(Principal Executive Officer)

Date: August 7, 1997      By: /s/ Ronald G. DeVos  
Ronald G. DeVos  
Vice President - Finance  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)

3-MOS

MAR-30-1997

JUN-29-1997

241

7850

1947

596

217

10332

12736

6820

27995

5371

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47

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5907

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1

794

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474

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