

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2024.
- 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. **001-35962**

**NATHAN'S FAMOUS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**11-3166443**

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

**One Jericho Plaza, Jericho, New York**

(Address of principal executive offices)

**11753**

(Zip Code)

Registrant's telephone number, including area code:

**516-338-8500**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	NATH	The NASDAQ Global Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
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

At August 8, 2024, an aggregate of 4,084,615 shares of the registrant's common stock, par value of \$.01, were outstanding.

# NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Nathan's Famous, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

June 30, 2024 and March 31, 2024

(in thousands, except share and per share amounts)

	<u>June 30, 2024</u>	<u>March 31, 2024</u>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note E)	\$ 25,979	\$ 21,027
Accounts and other receivables, net (Note G)	20,471	14,731
Inventories	931	842
Prepaid expenses and other current assets (Note H)	1,598	2,176
Total current assets	<u>48,979</u>	<u>38,776</u>
Property and equipment, net of accumulated depreciation of \$11,893 and \$11,687, respectively	2,535	2,673
Operating lease assets (Note Q)	5,852	6,203
Goodwill	95	95
Intangible asset, net (Note I)	652	695
Deferred income taxes	280	275
Other assets	134	141
Total assets	<u>\$ 58,527</u>	<u>\$ 48,858</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,046	\$ 5,744
Accrued expenses and other current liabilities (Note K)	8,951	7,615
Current portion of operating lease liabilities (Note Q)	1,897	1,887
Deferred franchise fees	322	327
Total current liabilities	<u>18,216</u>	<u>15,573</u>
Long-term debt, net of unamortized debt issuance costs of \$369 and \$438, respectively (Note P)	59,631	59,562
Operating lease liabilities (Note Q)	4,513	4,937
Other liabilities	844	810
Deferred franchise fees	824	899
Total liabilities	<u>84,028</u>	<u>81,781</u>
<b>COMMITMENTS AND CONTINGENCIES (Note R)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,374,130 shares issued; and 4,084,615 shares outstanding at June 30, 2024 and March 31, 2024	94	94
Additional paid-in capital	63,124	62,936
Accumulated deficit	(2,057)	(9,291)
Stockholders' equity before treasury stock	<u>61,161</u>	<u>53,739</u>
Treasury stock, at cost, 5,289,515 shares at June 30, 2024 and March 31, 2024	(86,662)	(86,662)
Total stockholders' deficit	<u>(25,501)</u>	<u>(32,923)</u>
Total liabilities and stockholders' deficit	<u>\$ 58,527</u>	<u>\$ 48,858</u>

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

Nathan's Famous, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF EARNINGS**

Thirteen weeks ended June 30, 2024 and June 25, 2023

(in thousands, except per share amounts)

(Unaudited)

	<u>June 30, 2024</u>	<u>June 25, 2023</u>
<b>REVENUES</b>		
Branded Products	\$ 26,146	\$ 25,170
Company-owned restaurants	4,199	3,658
License royalties	12,921	11,658
Franchise fees and royalties	1,073	1,075
Advertising fund revenue	428	424
Total revenues	<u>44,767</u>	<u>41,985</u>
<b>COSTS AND EXPENSES</b>		
Cost of sales	25,241	24,684
Restaurant operating expenses	1,129	1,043
Depreciation and amortization	249	313
General and administrative expenses	3,975	4,058
Advertising fund expense	428	424
Total costs and expenses	<u>31,022</u>	<u>30,522</u>
Income from operations	13,745	11,463
Interest expense	(1,060)	(1,414)
Interest and dividend income	78	62
Other income, net	21	21
Income before provision for income taxes	12,784	10,132
Provision for income taxes	3,507	2,744
Net income	<u>\$ 9,277</u>	<u>\$ 7,388</u>
<b>PER SHARE INFORMATION</b>		
Weighted average shares used in computing net income per share:		
Basic	4,085	4,080
Diluted	<u>4,089</u>	<u>4,088</u>
Net income per share:		
Basic	<u>\$ 2.27</u>	<u>\$ 1.81</u>
Diluted	<u>\$ 2.27</u>	<u>\$ 1.81</u>

The accompanying notes are an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**

Thirteen weeks ended June 30, 2024 and June 25, 2023

(in thousands, except share and per share amounts)

(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
					Shares	Amount	
<b>Balance, March 31, 2024</b>	9,374,130	\$ 94	\$ 62,936	\$ (9,291)	5,289,515	\$ (86,662)	\$ (32,923)
<b>Dividends on common stock (\$0.50 per share)</b>	-	-	-	(2,043)	-	-	(2,043)
<b>Share-based compensation</b>	-	-	188	-	-	-	188
<b>Net income</b>	-	-	-	9,277	-	-	9,277
<b>Balance, June 30, 2024</b>	<u>9,374,130</u>	<u>\$ 94</u>	<u>\$ 63,124</u>	<u>\$ (2,057)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (25,501)</u>

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
					Shares	Amount	
<b>Balance, March 26, 2023</b>	9,369,235	\$ 94	\$ 62,565	\$ (20,559)	5,289,515	\$ (86,662)	\$ (44,562)
<b>Cumulative effect of adoption of ASU 2016-13</b>	-	-	-	(187)	-	-	(187)
<b>Dividends on common stock (\$0.50 per share)</b>	-	-	-	(2,040)	-	-	(2,040)
<b>Share-based compensation</b>	-	-	177	-	-	-	177
<b>Net income</b>	-	-	-	7,388	-	-	7,388
<b>Balance, June 25, 2023</b>	<u>9,369,235</u>	<u>\$ 94</u>	<u>\$ 62,742</u>	<u>\$ (15,398)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (39,224)</u>

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

Nathan's Famous, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Thirteen weeks ended June 30, 2024 and June 25, 2023

(in thousands, except per share amounts)

(Unaudited)

	June 30, 2024	June 25, 2023
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,277	\$ 7,388
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	249	313
Amortization of debt issuance costs	69	92
Share-based compensation expense	188	177
Provision for expected credit losses	65	81
Deferred income taxes	(5)	(46)
Other non-cash items	(63)	(70)
<b>Changes in operating assets and liabilities:</b>		
Accounts and other receivables, net	(5,805)	(6,232)
Inventories	(89)	(225)
Prepaid expenses and other current assets	578	534
Other assets	7	7
Accounts payable, accrued expenses and other current liabilities	568	156
Deferred franchise fees	(80)	(52)
Other liabilities	34	25
<b>Net cash provided by operating activities</b>	<b>4,993</b>	<b>2,148</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(41)	(73)
<b>Net cash used in investing activities</b>	<b>(41)</b>	<b>(73)</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,952</b>	<b>2,075</b>
Cash and cash equivalents, beginning of period	21,027	29,861
<b>Cash and cash equivalents, end of period</b>	<b>\$ 25,979</b>	<b>\$ 31,936</b>
<b>Cash paid during the period for:</b>		
Interest	\$ 1,988	\$ 2,650
Income taxes	\$ 138	\$ 81

See Note S for supplemental cash flow information.

The accompanying notes are an integral part of these consolidated financial statements.

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2024

(in thousands, except per share amounts)

(Unaudited)

**NOTE A - BASIS OF PRESENTATION**

The accompanying consolidated financial statements of Nathan's Famous, Inc. and subsidiaries (collectively "Nathan's," the "Company," "we," "us" or "our") as of and for the thirteen week periods ended June 30, 2024 and June 25, 2023 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The unaudited financial statements include all adjustments (consisting of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of financial condition, results of operations and cash flows for the periods presented. However, our results of operations are seasonal in nature, and the results of any interim period are not necessarily indicative of results for any other interim period or the full fiscal year.

The Company uses a 52-53 week fiscal year ending on the Sunday closest to March 31. The 2025 fiscal year will end on March 30, 2025 and will contain 52 weeks.

Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted pursuant to the requirements of the U.S. Securities and Exchange Commission ("SEC").

Management believes that the disclosures included in the accompanying consolidated interim financial statements and footnotes are adequate to make the information not misleading but should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Nathan's Annual Report on Form 10-K for the fiscal year ended March 31, 2024 as filed with the SEC on June 12, 2024.

Our significant interim accounting policies include the recognition of advertising fund expense in proportion to advertising fund revenue, and the recognition of income taxes using an estimated annual effective tax rate.

A summary of the Company's significant accounting policies is identified in Note B of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2024.

**NOTE B – NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*" which provides guidance to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss, provides new segment disclosure requirements for entities with a single reportable segment and contains other disclosure requirements. The purpose of the guidance is to enable investors to better understand an entity's overall performance and assess potential future cash flows. The guidance is effective for fiscal years beginning December 15, 2023, and interim periods within fiscal years beginning December 15, 2024. For the Company, annual reporting requirements will be effective for our fiscal year 2025 beginning on April 1, 2024 and interim reporting requirements will be effective beginning with our fourth quarter of fiscal year 2025. Early adoption is permitted. Entities are required to adopt this guidance on a retrospective basis. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*" which updates income tax disclosure requirements primarily by requiring specific categories and greater disaggregation within the rate reconciliation table and disaggregation of income taxes paid, net of refunds, by jurisdiction. All entities are required to apply the guidance prospectively, with the option to apply it retrospectively. The guidance is effective for fiscal years beginning after December 15, 2024, which for us is our fiscal year 2026 beginning on March 31, 2025. Early adoption is permitted. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

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

NOTE C – REVENUES

The Company’s disaggregated revenues for the thirteen weeks ended June 30, 2024 and June 25, 2023 are as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Branded Products	\$ 26,146	\$ 25,170
Company-owned restaurants	4,199	3,658
License royalties	12,921	11,658
Franchise royalties	981	980
Franchise fees	92	95
Advertising fund revenue	428	424
Total revenues	<u>\$ 44,767</u>	<u>\$ 41,985</u>

The following table disaggregates revenues by primary geographical market (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
United States	\$ 43,296	\$ 39,882
International	1,471	2,103
Total revenues	<u>\$ 44,767</u>	<u>\$ 41,985</u>

*Contract balances*

The following table provides information about contract liabilities from contracts with customers (in thousands):

	<u>June 30, 2024</u>	<u>March 31, 2024</u>
Deferred franchise fees (a)	\$ 1,146	\$ 1,226
Deferred revenues, which are included in “Accrued expenses and other current liabilities” (b)	\$ 723	\$ 1,375

- (a) Deferred franchise fees of \$322 and \$824 as of June 30, 2024 and \$327 and \$899 as of March 31, 2024 are included in Deferred franchise fees – current and long term, respectively.
- (b) Includes \$473 of deferred license royalties and \$250 of deferred advertising fund revenue as of June 30, 2024 and \$875 of deferred license royalties and \$500 of deferred advertising fund revenue as of March 31, 2024.

Significant changes in deferred franchise fees are as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Deferred franchise fees at beginning of period	\$ 1,226	\$ 1,608
New deferrals due to cash received and other	12	43
Revenue recognized during the period	(92)	(95)
Deferred franchise fees at end of period	<u>\$ 1,146</u>	<u>\$ 1,556</u>

Significant changes in deferred revenues are as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Deferred revenues at beginning of period	\$ 1,375	\$ 1,406
Revenue recognized during the period	(652)	(609)
Deferred revenues at end of period	<u>\$ 723</u>	<u>\$ 797</u>

## Anticipated future recognition of deferred franchise fees

The following table reflects the estimated franchise fees to be recognized in the future related to performance obligations that are unsatisfied at the end of the period (in thousands):

	<b>Estimate for fiscal year</b>
2025 (a)	\$ 246
2026	299
2027	186
2028	95
2029	63
Thereafter	257
<b>Total</b>	<b>\$ 1,146</b>

- (a) Represents franchise fees expected to be recognized for the remainder of the 2025 fiscal year, which includes international development fees expected to be recognized over the duration of one year or less. Amount does not include \$92 of franchise fee revenue recognized for the thirteen weeks ended June 30, 2024.

We have applied the optional exemption, as provided for under Topic 606 “*Revenues from Contracts with Customers*,” which allows us to not disclose the transaction price allocated to unsatisfied performance obligations when the transaction price is a sales-based royalty.

## NOTE D – INCOME PER SHARE

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

The following chart provides a reconciliation of information used in calculating the per-share amounts for the thirteen week periods ended June 30, 2024 and June 25, 2023, respectively (in thousands, except per share amounts):

	<u>2025</u>	<u>2024</u>
Net income	\$ 9,277	\$ 7,388
Common Stock:		
Weighted average basic shares outstanding	4,085	4,080
Effect of dilutive share-based awards	4	8
Weighted average diluted shares outstanding	4,089	4,088
Net income per share:		
Basic	\$ 2.27	\$ 1.81
Diluted	\$ 2.27	\$ 1.81
Anti-dilutive share-based awards	-	10

## NOTE E – CASH AND CASH EQUIVALENTS

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents at June 30, 2024 were \$10,000. The Company did not have any cash equivalents at March 31, 2024. The Company’s cash balances principally consist of cash in bank and money market accounts.

At June 30, 2024 and March 31, 2024, substantially all of the Company’s cash balances are in excess of Federal government insurance limits. The Company has not experienced any losses in such accounts.

## NOTE F – FAIR VALUE MEASUREMENTS

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

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market
- Level 2 - inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability and reflect the Company's own assumptions

The face value and fair value of long-term debt as of June 30, 2024 and March 31, 2024 were as follows (in thousands):

	June 30, 2024		March 31, 2024	
	Face value	Fair value	Face Value	Fair value
Long-term debt	\$ 60,000	\$ 60,101	\$ 60,000	\$ 59,903

The Company estimates the fair value of its long-term debt based upon review of observable pricing in secondary markets as of the last trading day of the fiscal period. Accordingly, the Company classifies its long-term debt as Level 2.

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

Certain non-financial assets and liabilities are measured at fair value on a non-recurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At June 30, 2024, no fair value adjustment or material fair value measurements were required for non-financial assets or liabilities.

## NOTE G – ACCOUNTS AND OTHER RECEIVABLES, NET

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

	June 30, 2024	March 31, 2024
Branded product sales	\$ 12,964	\$ 10,833
Franchise and license royalties	7,170	4,139
Other	799	162
	20,933	15,134
Less: allowance for credit losses	(462)	(403)
Accounts and other receivables, net	\$ 20,471	\$ 14,731

Our provision for credit losses is based on the current expected credit losses model. The Company is exposed to credit losses through its trade accounts receivable. Trade accounts receivable are generally due within 30 days and are stated at amounts due from franchisees, including virtual kitchens, retail licensees and Branded Product Program customers, net of an allowance for credit losses. Accounts that are outstanding longer than the contractual payment terms are generally considered past due.

An allowance for credit losses is determined by pooling financial assets based on similar risk characteristics and delinquency status under an aging method at the measurement date. The Company considers both qualitative and quantitative information when developing the estimate including assessments of collectability based on historical trends, the financial condition of the Company's franchisees, licensees and Branded Product Program customers, including any known or anticipated bankruptcies, and an evaluation of current economic conditions as well as the Company's expectations of conditions in the future.

The Company provides for expected credit losses through a charge to earnings. After the Company has used reasonable collection efforts, it writes off accounts receivable through a charge to the allowance for credit losses.

Changes in the Company's allowance for credit losses for the thirteen week period ended June 30, 2024 and the fiscal year ended March 31, 2024 are as follows (in thousands):

	<u>June 30,</u> <u>2024</u>	<u>March 31,</u> <u>2024</u>
Beginning balance	\$ 403	\$ 480
Cumulative effect of adoption of ASU 2016-13	-	252
Provision for expected credit losses	65	157
Write offs and other	(6)	(486)
Ending balance	<u>\$ 462</u>	<u>\$ 403</u>

#### NOTE H – PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>June 30,</u> <u>2024</u>	<u>March 31,</u> <u>2024</u>
Income taxes	\$ -	\$ 858
Real estate taxes	154	93
Deferred financing costs	265	-
Insurance	235	268
Marketing	646	562
Other	298	395
Total prepaid expenses and other current assets	<u>\$ 1,598</u>	<u>\$ 2,176</u>

#### NOTE I - INTANGIBLE ASSET

The Company's definite-lived intangible asset consists of trademarks, and the trade name and other intellectual property in connection with its Arthur Treacher's co-branding agreements. Based upon review of the current Arthur Treacher's co-branding agreements, the Company determined that the remaining useful lives of these agreements is four years concluding in fiscal year 2028, and the intangible asset is subject to annual amortization. The Company performs an annual impairment test, or more frequently if events or changes in circumstances indicate that the intangible asset may be impaired. The Company tests for recoverability of its definite-lived intangible asset based on the projected undiscounted cash flows to be derived from such co-branding agreements. Cash flow projections require significant estimates and assumptions by management. Should the estimates and assumptions prove to be incorrect, the Company may be required to record an impairment charge in future periods and such impairment could be material.

There have been no significant events or changes in circumstances during the thirteen weeks ended June 30, 2024 that would indicate that the carrying amount of the Company's intangible asset may be impaired as of June 30, 2024.

#### NOTE J - LONG LIVED ASSETS

Long-lived assets on a restaurant-by-restaurant basis are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Long-lived assets include property, equipment and right-of-use assets for operating leases with finite useful lives. Assets are grouped at the individual restaurant level which represents the lowest level for which cash flows can be identified largely independent of the cash flows of other assets and liabilities. The Company generally considers a history of restaurant operating losses to be its primary indicator of potential impairment for individual restaurant locations.

The Company tests for recoverability based on the projected undiscounted cash flows to be derived from such assets. If the projected undiscounted future cash flows are less than the carrying value of the asset, the Company will record on a restaurant-by-restaurant basis, 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 assets. 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 impairment charges in future periods and such impairments could be material.

There have been no significant events or changes in circumstances during the thirteen weeks ended June 30, 2024 that would indicate that the carrying amount of the Company's long-lived assets may be impaired as of June 30, 2024.

## NOTE K – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	June 30, 2024	March 31, 2024
Dividend payable	\$ 2,043	\$ -
Payroll and other benefits	1,495	3,522
Accrued rebates	880	693
Rent and occupancy costs	98	78
Deferred revenue	723	1,375
Interest	679	1,676
Professional fees	223	56
Sales, use and other taxes	105	41
Corporate income taxes	2,483	-
Other	222	174
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 8,951</b>	<b>\$ 7,615</b>

## NOTE L – INCOME TAXES

The income tax provisions for the thirteen week periods ended June 30, 2024 and June 25, 2023 reflect effective tax rates of 27.4% and 27.1%, respectively. The effective income tax rate for the thirteen weeks ended June 30, 2024 reflected \$3,507 of income tax expense recorded on \$12,784 of pre-tax income. The effective income tax rate for the thirteen weeks ended June 25, 2023 reflected \$2,744 of income tax expense recorded on \$10,132 of pre-tax income. The effective tax rates are higher than the United States Federal statutory rates primarily due to state and local taxes.

The amount of unrecognized tax benefits included in Other liabilities at June 30, 2024 and March 31, 2024 was \$485 and \$465, respectively, all of which would impact the Company's effective rate, if recognized. As of June 30, 2024 and March 31, 2024, the Company had approximately \$367 and \$345, respectively, of accrued interest and penalties in connection with unrecognized tax benefits.

## NOTE M – SEGMENT INFORMATION

Nathan's considers itself to be a brand marketer of the Nathan's Famous signature products to the foodservice industry pursuant to its various business structures. Nathan's sells its products directly to consumers through its restaurant operations segment consisting of Company-owned and franchised restaurants, including virtual kitchens, to distributors that resell our products to the foodservice industry through the Branded Product Program and by third party manufacturers pursuant to license agreements that sell our products to supermarkets, club stores and grocery stores nationwide. The Company's Chief Executive Officer has been identified as the Chief Operating Decision Maker ("CODM") who regularly reviews operating results, evaluates performance and allocates resources for the Branded Product Program, Product Licensing and Restaurant Operations segments based upon a number of factors, the primary profit measure being income from operations. Certain administrative expenses are not allocated to the segments and are reported within the Corporate segment.

*Branded Product Program* – This segment derives revenue principally from the sale of hot dog products either directly to foodservice operators or to various foodservice distributors who resell the products to foodservice operators.

*Product licensing* – This segment derives revenue, primarily in the form of royalties, from licensing a broad variety of Nathan's Famous branded products, including our hot dogs, frozen crinkle-cut French fries and additional products through retail supermarkets, grocery channels and club stores throughout the United States.

*Restaurant operations* – This segment derives revenue from the sale of our products at Company-owned restaurants and earns fees and royalties from its franchised restaurants, including its virtual kitchens.

Revenues from operating segments are from transactions with unaffiliated third parties and do not include any intersegment revenues.

Income from operations attributable to Corporate consists principally of administrative expenses not allocated to the operating segments such as executive management, finance, information technology, legal, insurance, corporate office costs, corporate incentive compensation and compliance costs, and expenses of the Advertising Fund.

Interest expense, interest and dividend income, and other income, net, are managed centrally at the corporate level, and, accordingly, such items are not presented by segment since they are excluded from the measure of profitability reviewed by the CODM.

Operating segment information is as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
<b>Revenues</b>		
Branded Product Program	\$ 26,146	\$ 25,170
Product licensing	12,921	11,658
Restaurant operations	5,272	4,733
Corporate (1)	428	424
Total revenues	<u>\$ 44,767</u>	<u>\$ 41,985</u>
<b>Income from operations</b>		
Branded Product Program	\$ 2,500	\$ 1,961
Product licensing	12,875	11,613
Restaurant operations	1,046	669
Corporate	(2,676)	(2,780)
Income from operations	<u>\$ 13,745</u>	<u>\$ 11,463</u>
Interest expense	(1,060)	(1,414)
Interest and dividend income	78	62
Other income, net	21	21
Income before provision for income taxes	<u>\$ 12,784</u>	<u>\$ 10,132</u>

(1) Represents advertising fund revenue.

#### NOTE N – SHARE-BASED COMPENSATION

Total share-based compensation expense during the thirteen week periods ended June 30, 2024 and June 25, 2023 was \$188 and \$177, respectively. Total share-based compensation expense is included in general and administrative expenses in our accompanying Consolidated Statements of Earnings. As of June 30, 2024, there was \$2,473 of unamortized compensation expense related to share-based awards. We expect to recognize this expense over approximately thirty-six months, which represents the weighted average remaining requisite service periods for such awards.

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

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Stock options	\$ 19	\$ 8
Restricted stock units	169	169
Total compensation cost	<u>\$ 188</u>	<u>\$ 177</u>

## Stock options

There were no new share-based awards granted during the thirteen week period ended June 30, 2024.

Transactions with respect to stock options for the thirteen weeks ended June 30, 2024 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at March 31, 2024	20,000	\$ 73.25	3.36	\$ 23
Granted	-	-	-	-
Exercised	-	-	-	-
Options outstanding at June 30, 2024	20,000	\$ 73.25	3.11	\$ -
Options exercisable at June 30, 2024	5,000	\$ 68.50	2.11	\$ -

## Restricted stock units

Transactions with respect to restricted stock units for the thirteen weeks ended June 30, 2024 are as follows:

	Shares	Weighted Average Grant-date Fair value Per share
Unvested restricted stock units at March 31, 2024	40,000	\$ 67.59
Granted	-	\$ -
Vested	-	\$ -
Unvested restricted stock units at June 30, 2024	40,000	\$ 67.59

## NOTE O – STOCKHOLDERS' EQUITY

### 1. Dividends

Effective June 12, 2024, the Company's Board of Directors (the "Board") declared its first quarterly cash dividend of \$0.50 per share for fiscal 2025, which was paid on July 2, 2024 to stockholders of record as of the close of business on June 24, 2024.

Effective August 8, 2024, the Board declared its second quarterly cash dividend of \$0.50 per share for fiscal 2025 payable on September 6, 2024 to stockholders of record as of the close of business on August 26, 2024.

Our ability to pay future dividends is limited by the terms of our debt instruments. In addition to the terms of our debt instruments, the declaration and 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.

### 2. Stock Repurchase Programs

In 2016, the Board authorized increases to the sixth stock repurchase plan for the purchase of up to 1,200,000 shares of its common stock on behalf of the Company. As of June 30, 2024, Nathan's had repurchased 1,101,884 shares at a cost of \$39,000 under the sixth stock repurchase plan. At June 30, 2024 there were 98,116 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.

NOTE P – LONG-TERM DEBT

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

	<u>June 30, 2024</u>	<u>March 31, 2024</u>
6.625% Senior Secured Notes due 2025	\$ 60,000	\$ 60,000
Less: unamortized debt issuance costs	(369)	(438)
Long-term debt, net	<u>\$ 59,631</u>	<u>\$ 59,562</u>

Subsequent to the quarter ending June 30, 2024, on July 10, 2024, the Company entered into a new five-year unsecured Credit Agreement with Citibank, N.A., (the “Credit Agreement”) that includes a term loan facility and revolving credit facility and used \$60,000 of term loan borrowings under the Credit Agreement to refinance and redeem its outstanding Senior Secured Notes due 2025. The transaction did not add any additional new debt to the Company’s Consolidated Balance Sheet. See NOTE T – SUBSEQUENT EVENTS in the accompanying consolidated financial statements for additional information on the Credit Agreement.

NOTE Q – LEASES

The Company is party as lessee to various leases for its Company-owned restaurants and lessee/sublessor to one franchised location property, including land and buildings, as well as leases for its corporate office and certain office equipment.

*Company as lessee*

The components of the net lease cost for the thirteen week periods ended June 30, 2024 and June 25, 2023 were as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Operating lease cost	\$ 441	\$ 426
Variable lease cost	460	388
Less: Sublease income, net	(21)	(21)
Total net lease cost	<u>\$ 880</u>	<u>\$ 793</u>

The components of the net lease cost on the Consolidated Statement of Earnings for the thirteen week periods ended June 30, 2024 and June 25, 2023 were as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Restaurant operating expenses	\$ 687	\$ 615
General and administrative expenses	214	199
Less: Other income, net	(21)	(21)
Total net lease cost	<u>\$ 880</u>	<u>\$ 793</u>

Cash paid for amounts included in the measurement of lease liabilities for the thirteen week periods ended June 30, 2024 and June 25, 2023 were as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Operating cash flows from operating leases	\$ 412	\$ 393

The weighted average remaining lease term and weighted average discount rate for operating leases as of June 30, 2024 were as follows:

Weighted average remaining lease term (years):	4.3
Weighted average discount rate:	8.484%

Future lease commitments to be paid and received by the Company as of June 30, 2024 were as follows (in thousands):

	Payments <u>Operating Leases</u>	Receipts <u>Subleases</u>	<u>Net Leases</u>
Fiscal year:			
2025 (a)	\$ 1,336	\$ 190	\$ 1,146
2026	1,923	278	1,645
2027	1,931	281	1,650
2028	1,781	129	1,652
2029	434	118	316
Thereafter	171	376	(205)
Total lease commitments	<u>\$ 7,576</u>	<u>\$ 1,372</u>	<u>\$ 6,204</u>
Less: Amount representing interest	(1,166)		
Present value of lease liabilities (b)	<u>\$ 6,410</u>		

- (a) Represents future lease commitments to be paid and received by the Company for the remainder of the 2025 fiscal year. Amount does not include \$466 of lease commitments paid and received by the Company for the thirteen week period ended June 30, 2024.
- (b) The present value of minimum operating lease payments of \$1,897 and \$4,513 are included in “Current portion of operating lease liabilities” and “Long-term operating lease liabilities,” respectively, on the Consolidated Balance Sheet.

#### ***Company as lessor***

The components of lease income for the thirteen week periods ended June 30, 2024 and June 25, 2023 were as follows (in thousands):

	Thirteen weeks ended	
	<u>June 30, 2024</u>	<u>June 25, 2023</u>
Operating lease income, net	\$ 21	\$ 21

#### **NOTE R - COMMITMENTS AND CONTINGENCIES**

##### **Legal Proceedings**

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

#### **NOTE S – SUPPLEMENTAL CASH FLOW INFORMATION**

##### **Non-cash investing activities**

Accruals for purchases of property and equipment of \$27 are included in Accrued expenses and other current liabilities on the Consolidated Balance Sheet at June 30, 2024.

## Non-cash financing activities

Dividends declared but not yet paid of \$2,043 are included in Accrued expenses and other current liabilities on the Consolidated Balance Sheet at June 30, 2024.

## NOTE T – SUBSEQUENT EVENTS

On July 10, 2024 (the “Effective Date”), the Company entered into a five-year unsecured Credit Agreement (the “Credit Agreement”) among the Company, as borrower, direct and indirect subsidiaries of the Company, as guarantors, the lenders from time to time party thereto (the “Lenders”) and Citibank, N.A., as administrative agent, swing line lender, L/C issuer and a Lender (capitalized terms used and not otherwise defined herein in NOTE T – SUBSEQUENT EVENTS shall have the meanings set forth in the Credit Agreement).

The Credit Agreement provides for a term loan facility (“Term Loan”) of \$60,000 and a revolving credit facility (“Revolving Loan”) of up to \$10,000. The Credit Agreement also provides that the Company has the right from time to time during the term of the Credit Agreement to request the Lenders for incremental revolving loan borrowing increases of up to an additional \$10,000 in the aggregate, subject to, among other items, the Lenders agreeing to lend any such additional amounts and compliance with terms specified in the Credit Agreement. The Credit Agreement matures on July 10, 2029.

The Company borrowed \$60,000 in Term Loan borrowings on the Effective Date to refinance and redeem its outstanding Senior Secured Notes due 2025. The Company will use any Revolving Loan borrowings under the Credit Agreement for working capital and general corporate purposes.

Term Loan and Revolving Loan borrowings under the Credit Agreement will bear interest at a rate per annum, at the Company’s option, of (a) for Base Rate Loans, the Base Rate plus the Applicable Rate (as defined in the Credit Agreement) of 0.00% or (b) for Term SOFR Loans, Term SOFR plus the Applicable Rate of 1.40%. The Company will be subject to a commitment fee of 0.20% per annum on the daily amount of the undrawn portion of the Revolving Committed Amount.

The Credit Agreement contains customary affirmative covenants and negative covenants and requires the Company to maintain a Consolidated Fixed Charge Ratio not to exceed 1.20 to 1.00 and a Consolidated Net Leverage Ratio not to exceed 3.00 to 1.00, in each case, beginning with the fiscal quarter ending September 29, 2024.

The outstanding Term Loan borrowings under the Credit Agreement are payable in equal quarterly installments of 1.0% of the original principal amount of the Term Loan, or \$600, beginning September 30, 2024.

The outstanding Term Loan borrowings and the Revolving Loan borrowings under the Credit Agreement are voluntarily prepayable by the Company without penalty or premium, provided, that each of the following shall require a mandatory prepayment of outstanding Term Loan borrowings and Revolving Loan borrowings by the Company as follows: (i) 100% of any Net Cash Proceeds in excess of \$2,000 individually or in the aggregate over the term of the Credit Agreement in respect of any Extraordinary Receipt provided that the Company shall be permitted to reinvest such Net Cash Proceeds in accordance with the Credit Agreement, (ii) 100% of any Net Cash Proceeds of an Equity Issuance, (iii) 100% of any Net Cash Proceeds from a Debt Issuance and (iv) 100% of any Net Cash Proceeds from the Disposition of certain assets individually, or in the aggregate, in excess of \$2,000 in any fiscal year provided that the Company shall be permitted to reinvest such Net Cash Proceeds in accordance with the Credit Agreement.

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

### **Forward-Looking Statements**

This Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1933, as amended, that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “projects,” “may,” “would,” “should,” “seeks,” “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-Q are based upon information available to us on the date of this Form 10-Q.

Statements in this Form 10-Q quarterly report may be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These risks and uncertainties, many of which are not within our control, include but are not limited to: the impact of disease epidemics such as the COVID-19 pandemic; increases in the cost of food and paper products; the impact of price increases on customer visits; the status of our licensing and supply agreements, including our licensing revenue and overall profitability being substantially dependent on our agreement with Smithfield Foods, Inc.; the impact of our debt service and repayment obligations under our debt instruments, including the effect on our ability to fund working capital, operations and make investments; economic (including inflationary pressures like those currently being experienced); weather (including the impact on sales at our restaurants particularly during the summer months); changes in the price of beef and beef trimmings; our ability to pass on the cost of any price increases in beef and beef trimmings; legislative and business conditions; the collectability of receivables; changes in consumer tastes; the continued viability of Coney Island as a destination location for visitors; the ability to attract franchisees; the impact of the minimum wage legislation on labor costs in New York State or other changes in labor laws, including regulations which could render a franchisor as a “joint employee” or the impact of our union contracts; our ability to attract competent restaurant and managerial personnel; the enforceability of international franchising agreements; the future effects of any food borne illness such as bovine spongiform encephalopathy, BSE or e-coli; as well as those risks discussed from time to time in this Form 10-Q and our Form 10-K annual report for the year ended March 31, 2024, and in other documents we file with the U.S. Securities and Exchange Commission. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. We generally identify forward-looking statements with the words “believe,” “intend,” “plan,” “expect,” “anticipate,” “estimate,” “will,” “should” and similar expressions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q.

### **Introduction**

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

We are engaged primarily in the marketing of the “Nathan’s Famous” brand and the sale of products bearing the “Nathan’s Famous” trademarks through several different channels of distribution. Historically, our business has been the operation and franchising of quick-service restaurants featuring Nathan’s World Famous Beef Hot Dogs, crinkle-cut French fries, and a variety of other menu offerings. Our Company-owned and franchised restaurants operate under the name “Nathan’s Famous,” the name first used at our original Coney Island restaurant opened in 1916. Nathan’s product licensing program sells packaged hot dogs; frozen crinkle-cut French fries and additional products to retail customers through supermarkets, grocery channels and club stores for off-site consumption. Our Branded Product Program enables foodservice retailers and others to sell some of Nathan’s proprietary products outside of the realm of a traditional franchise relationship. In conjunction with this program, purchasers of Nathan’s products are granted a limited use of the Nathan’s Famous trademark with respect to the sale of the purchased products, including Nathan’s World Famous Beef Hot Dogs, certain other proprietary food items and paper goods. Our Branded Menu Program is a limited franchise program, under which foodservice operators may sell a greater variety of Nathan’s Famous menu items than under the Branded Product Program.

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

At June 30, 2024, our restaurant system, excluding virtual kitchens, consisted of 231 locations, including 118 Branded Menu Program locations, and four Company-owned restaurants (including one seasonal unit), located in 17 states, and 13 foreign countries.

At June 25, 2023, our restaurant system, excluding virtual kitchens, consisted of 235 locations, including 121 Branded Menu Program locations, and four Company-owned restaurants (including one seasonal unit), located in 17 states, and 13 foreign countries.

Our primary focus is to expand the market penetration of the Nathan's Famous brand by increasing the number of distribution points for our products across all of our business platforms, including our Licensing Program for distribution of Nathan's Famous branded consumer packaged goods, our Branded Products Program for distribution of Nathan's Famous branded bulk products to the foodservice industry, and our namesake restaurant system comprised of both Company-owned restaurants and franchised locations, including virtual kitchens. The primary drivers of our growth have been our Licensing and Branded Product Programs which have been the largest contributors to the Company's revenues and profits.

While we do not expect to significantly increase the number of Company-owned restaurants, we may opportunistically and strategically invest in a small number of new units as showcase locations for prospective franchisees and master developers as we seek to grow our franchise system. We continue to seek opportunities to drive sales in a variety of ways as we adapt to the ever-changing consumer and business climate.

As described in our Annual Report on Form 10-K for the year ended March 31, 2024, our future results could be materially impacted by many developments including our dependence on Smithfield Foods, Inc. as our principal supplier and the dependence of our licensing revenue and overall profitability on our agreement with Smithfield Foods, Inc. In addition, our future operating results could be impacted by supply constraints on beef or by increased costs of beef, beef trimmings and other commodities due to inflationary pressures compared to earlier periods.

On November 1, 2017, the Company issued \$150,000,000 of 6.625% Senior Secured Notes due 2025 (the "2025 Notes") and used the majority of the proceeds of this offering to redeem the Company's 10.000% Senior Secured Notes due 2020, paid a portion of a special \$5.00 cash dividend and used the remaining proceeds for general corporate purposes, including working capital. Over the past three years, we redeemed \$90,000,000 of the 2025 Notes reducing the outstanding balance to \$60,000,000 at June 30, 2024. We believe that our multi-channel asset light business model will continue to generate consistent free cash flow to manage our current debt service levels and may enable us to further reduce our debt service levels in the future. On May 1, 2024, the Company paid its first semi-annual interest payment on the 2025 Notes of \$1,987,500 for fiscal 2025.

As described below, we are also including information relating to EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, in this Form 10-Q quarterly report. See "Reconciliation of GAAP and Non-GAAP Measures."

## **Recent events**

### ***Refinancing of Senior Secured Notes due 2025***

On July 10, 2024, the Company entered into a five-year unsecured Credit Agreement with Citibank, N.A. and borrowed \$60,000,000 in Term Loan borrowings to refinance and redeem the 2025 Notes. See NOTE T – SUBSEQUENT EVENTS to the accompanying consolidated financial statements and "Liquidity and Capital Resources" for additional information on the Credit Agreement and refinancing. Our future results may be impacted by our debt service and repayment obligations under our debt instruments.

## ***Inflationary Factors***

Inflationary pressures impacted our results of operations during the first three months of fiscal 2025, including higher commodity prices on beef and beef trimmings. We expect this trend to continue throughout the remainder of fiscal year 2025. In general, we have been able to offset cost increases resulting from inflation by increasing prices and adjusting product mix. We continue to monitor these inflationary pressures and will continue to implement mitigation measures as needed. Inherent volatility in commodity markets, including beef and beef trimmings, could have a significant impact on our results of operations. Delays in implementing price increases, competitive pressures, a decline in consumer spending levels and other factors may limit our ability to implement further price increases in the future.

## **Critical Accounting Policies and Estimates**

As discussed in our Form 10-K for the fiscal year ended March 31, 2024, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those consolidated financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to impairment of intangible assets; impairment of long-lived assets; current expected credit losses and income taxes (including uncertain tax positions). There have been no changes to our critical accounting estimates or significant accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2024.

## **New Accounting Standards Not Yet Adopted**

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

## **EBITDA and Adjusted EBITDA**

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

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

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

In addition to disclosing results that are determined in accordance with US GAAP, the Company has provided EBITDA, a non-GAAP financial measure, which is defined as net income excluding (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA, a non-GAAP financial measure, which is defined as EBITDA, excluding share-based compensation that the Company believes will impact the comparability of its results of operations.

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

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

	Thirteen weeks ended	
	June 30, 2024	June 25, 2023
	(unaudited)	
Net income	\$ 9,277	\$ 7,388
Interest expense	1,060	1,414
Provision for income taxes	3,507	2,744
Depreciation and amortization	249	313
EBITDA	<u>14,093</u>	<u>11,859</u>
Share-based compensation	188	177
Adjusted EBITDA	<u>\$ 14,281</u>	<u>\$ 12,036</u>

## Seasonality

Our routine business pattern is affected by seasonal fluctuations, including the effects of weather and economic conditions. Historically, sales from our Company-owned restaurants, principally at Coney Island, and franchised restaurants from which franchised royalties are earned and the Company's earnings have been highest during our first two fiscal quarters, with the fourth quarter representing the slowest period. Additionally, revenues from our Branded Product Program, Branded Menu Program and Product licensing program generally follow similar seasonal fluctuations, although not to the same degree. We expect that this seasonality will continue. Working capital requirements may vary throughout the year to support these seasonal patterns.

Due to the above seasonal factors, as well as inflationary pressures, our results of operations for the thirteen weeks ended June 30, 2024 are not necessarily indicative of those for a full fiscal year.

## Results of Operations

### Thirteen weeks ended June 30, 2024 compared to thirteen weeks ended June 25, 2023

#### Revenues

Total revenues increased by approximately 7% to \$44,767,000 for the thirteen weeks ended June 30, 2024 ("fiscal 2025 period") as compared to \$41,985,000 for the thirteen weeks ended June 25, 2023 ("fiscal 2024 period").

Foodservice sales from the Branded Product Program increased by approximately \$976,000 to \$26,146,000 during the fiscal 2025 period as compared to \$25,170,000 for the fiscal 2024 period. During the fiscal 2025 period, the total volume of hot dogs sold in the Branded Product Program was comparable to the fiscal 2024 period. Our average selling price increased by approximately 3.5% as compared to the fiscal 2024 period.

Total Company-owned restaurant sales increased by approximately \$541,000 to \$4,199,000 during the fiscal 2025 period as compared to \$3,658,000 during the fiscal 2024 period. Restaurant sales were impacted by an increase in our average check, as well as higher traffic at our two Company-owned restaurants in Coney Island.

License royalties increased by approximately 11% to \$12,921,000 in the fiscal 2025 period as compared to \$11,658,000 in the fiscal 2024 period. Total royalties earned on sales of hot dogs from our license agreement with Smithfield Foods, Inc. at retail and foodservice, increased 11% to \$12,010,000 in the fiscal 2025 period as compared to \$10,796,000 in the fiscal 2024 period. The increase is due to an 11% increase in retail volume which was offset, in part, by a 0.5% decrease in net selling price. The foodservice business earned higher royalties of \$67,000 as compared to the fiscal 2024 period. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$49,000 during the fiscal 2025 period as compared to the fiscal 2024 period primarily due to higher royalties earned on sales of French fries, onion rings, and proprietary spices offset, in part, by lower royalties earned on sales of franks-in-a-blanket, mozzarella sticks and other hors d'oeuvres.

Franchise fees and royalties were \$1,073,000 in the fiscal 2025 period as compared to \$1,075,000 in the fiscal 2024 period. Total royalties were \$981,000 in the fiscal 2025 period as compared to \$980,000 in the fiscal 2024 period. Royalties earned under the Branded Menu Program were \$175,000 in the fiscal 2025 period as compared to \$181,000 in the fiscal 2024 period. Royalties earned under the Branded Menu Program are not based upon a percentage of restaurant sales but are based upon product purchases. Virtual kitchen royalties were \$14,000 in the fiscal 2025 period as compared to \$32,000 in the fiscal 2024 period. Traditional franchise royalties were \$792,000 in the fiscal 2025 period as compared to \$767,000 in the fiscal 2024 period. Franchise restaurant sales increased to \$17,653,000 in the fiscal 2025 period as compared to \$17,263,000 in the fiscal 2024 period primarily due to higher sales at airport locations, shopping malls, and casino locations, primarily in Las Vegas, Nevada. Comparable domestic franchise sales (consisting of 57 Nathan's franchised restaurants, excluding sales under the Branded Menu Program) were \$14,147,000 in the fiscal 2025 period as compared to \$14,199,000 in the fiscal 2024 period.

At June 30, 2024, 231 franchised locations, including domestic, international and Branded Menu Program units were operating as compared to 235 franchised locations, including domestic, international and Branded Menu Program units at June 25, 2023. Total franchise fee income was \$92,000 in the fiscal 2025 period as compared to \$95,000 in the fiscal 2024 period. Domestic franchise fee income was \$23,000 in the fiscal 2025 period as compared to \$27,000 in the fiscal 2024 period. International franchise fee income was \$60,000 in the fiscal 2025 period and the fiscal 2024 period. We recognized \$9,000 and \$8,000 in forfeited fees in the fiscal 2025 and fiscal 2024 periods, respectively. During the fiscal 2025 period, three franchise locations opened and two franchise locations closed. During the fiscal 2024 period, seven franchise locations opened and four franchise locations closed.

Advertising fund revenue, after eliminating Company contributions, was \$428,000 in the fiscal 2025 period as compared to \$424,000 in the fiscal 2024 period.

### **Costs and Expenses**

Overall, our cost of sales increased by 2.3% to \$25,241,000 in the fiscal 2025 period as compared to \$24,684,000 in the fiscal 2024 period. Our gross profit (calculated as total Branded Products sales plus total Company-owned restaurant sales less cost of sales) was \$5,104,000 during the fiscal 2025 period as compared to \$4,144,000 during the fiscal 2024 period.

Cost of sales in the Branded Product Program increased by approximately 2% to \$22,972,000 in the fiscal 2025 period as compared to \$22,568,000 in the fiscal 2024 period, primarily due to a 0.4% increase in the volume of hot dogs sold, as well as a 1.1% increase in the average cost per pound of our hot dogs. A shrinking supply of cattle, combined with drought conditions, industry demand and inflationary pressures have resulted in higher commodity prices, including beef and beef trimmings, contributing to the increase in the average cost per pound of our hot dogs. We did not make any purchase commitments of beef during the fiscal 2025 and 2024 periods. 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 2025 period was \$2,269,000 or 54% of restaurant sales, as compared to \$2,116,000 or 58% of restaurant sales during the fiscal 2024 period. Food and paper costs as a percentage of Company-owned restaurant sales were 25%, down from 28% in the comparable period of the prior year, driven, in part, by price increases across most menu offerings. Labor and related expenses as a percentage of Company-owned restaurant sales were 29%, down from 30% in the comparable period in the prior year due to increases in our average check and tighter management and staffing stabilization.

Restaurant operating expenses were \$1,129,000 in the fiscal 2025 period as compared to \$1,043,000 in the fiscal 2024 period. The increase is due primarily to higher occupancy expenses of \$44,000, higher insurance costs of \$28,000, and higher maintenance costs of \$18,000. As a percentage of Company-owned restaurant sales, restaurant operating expenses were 26.9% in the fiscal 2025 period as compared to 28.5% in the fiscal 2024 period.

Depreciation and amortization, which primarily consist of the depreciation of fixed assets, including leasehold improvements and equipment and the amortization of a definite-lived intangible asset, was \$249,000 in the fiscal 2025 period as compared to \$313,000 in the fiscal 2024 period.

General and administrative expenses decreased by \$83,000 or 2% to \$3,975,000 in the fiscal 2025 period as compared to \$4,058,000 in the fiscal 2024 period. The decrease in general and administrative expenses was primarily attributable to lower professional fees of \$103,000, which were offset, in part, by higher salaries expense of \$38,000 attributable to annual rate increases.

Advertising fund expense, after eliminating Company contributions, was \$428,000 in the fiscal 2025 period as compared to \$424,000 in the fiscal 2024 period.

### **Other Items**

Interest expense of \$1,060,000 in the fiscal 2025 period represented interest expense of \$991,000 on the 2025 Notes and amortization of debt issuance costs of \$69,000.

Interest expense of \$1,414,000 in the fiscal 2024 period represented interest expense of \$1,322,000 on the 2025 Notes and amortization of debt issuance costs of \$92,000.

The reduction in interest expense of \$354,000 is due to the reduction in the outstanding balance of the Company's 2025 Notes from \$80,000,000 at June 25, 2023 to \$60,000,000 at June 30, 2024, as a result of the \$20,000,000 partial redemption completed in December 2023.

Interest and dividend income of \$78,000 in the fiscal 2025 period represented amounts earned by the Company on its interest bearing bank and money market accounts and mutual funds, as compared to \$62,000 in the fiscal 2024 period.

Other income, net was \$21,000 in the fiscal 2025 period and the fiscal 2024 period, which primarily relates to sublease income from a franchised restaurant.

### **Provision for Income Taxes**

The effective income tax rate for the fiscal 2025 period was 27.4% as compared to 27.1% in the fiscal 2024 period. The effective income tax rate for the fiscal 2025 period reflected income tax expense of \$3,507,000 recorded on \$12,784,000 of pre-tax income. The effective income tax rate for the fiscal 2024 period reflected income tax expense of \$2,744,000 recorded on \$10,132,000 of pre-tax income. The effective tax rates are higher than the statutory rates primarily due to state and local taxes, as well as non-deductible compensation under the Internal Revenue Code Section 162(m).

The amount of unrecognized tax benefits at June 30, 2024 was \$485,000 all of which would impact the Company's effective tax rate, if recognized. As of June 30, 2024, the Company had approximately \$367,000 accrued for the payment of interest and penalties in conjunction with unrecognized tax benefits.

Nathan's estimates that its unrecognized tax benefit excluding accrued interest and penalties could be further reduced by up to \$46,000 during the fiscal year ending March 30, 2025 due primarily to the lapse of statutes of limitations which would favorably impact the Company's effective tax rate, although no assurances can be given in this regard.

### Off-Balance Sheet Arrangements

At June 30, 2024 and June 25, 2023, Nathan's did not have any open purchase commitments for hot dogs. Nathan's may enter into purchase commitments in the future as favorable market conditions become available.

### Liquidity and Capital Resources

#### Sources and uses of cash

Cash and cash equivalents at June 30, 2024 aggregated \$25,979,000, a \$4,952,000 increase during the fiscal 2025 period as compared to cash of \$21,027,000 at March 31, 2024. Net working capital increased to \$30,763,000 at June 30, 2024 as compared to \$23,203,000 at March 31, 2024.

Our primary sources of liquidity are cash flows from operations. Our primary cash requirements are to fund our quarterly dividends, to satisfy the debt service under our debt instruments, capital expenditures, working capital and general corporate needs.

On May 1, 2024, we paid our first semi-annual interest payment on the 2025 Notes of \$1,987,500 for the fiscal 2025 period. On July 2, 2024, we paid our first quarterly cash dividend of fiscal 2025 of \$2,043,000.

Cash flow for the fiscal year 2025 will be impacted by various factors, including, as discussed further below in this "Liquidity and Capital Resources" section, (i) debt issuance costs incurred in connection with our new Credit Agreement, (ii) mandatory debt repayments on our Term Loan borrowings under our new Credit Agreement, (iii) interest payments on our 2025 Notes and our Term Loan borrowings under our new Credit Agreement and (iv) expected dividend payments.

#### Summary of Cash Flows

The following table presents a summary of our cash flows from operating and investing activities:

(In thousands)	Fiscal year	
	2025	2024
Net cash provided by operating activities	\$ 4,993	\$ 2,148
Net cash used in investing activities	(41)	(73)
Net increase in cash and cash equivalents	\$ 4,952	\$ 2,075

#### Operating activities

Cash provided by operations of \$4,993,000 in the fiscal 2025 period is primarily attributable to net income of \$9,277,000 in addition to other non-cash operating items of \$503,000, offset by changes in other operating assets and liabilities of \$4,787,000. Non-cash operating expenses consist principally of depreciation and amortization of \$249,000, amortization of debt issuance costs of \$69,000, share-based compensation expense of \$188,000, and a provision for credit losses of \$65,000. In the fiscal 2025 period, accounts and other receivables increased by \$5,805,000 due primarily to higher Branded Product Program receivables of \$2,131,000, higher franchise and license royalties receivable of \$3,031,000 and higher receivables due to the Advertising Fund of \$730,000. Prepaid expenses and other current assets decreased by \$578,000 due principally to a decrease in prepaid income taxes of \$858,000 which was offset by an increase in prepaid real estate taxes of \$61,000 and an increase in deferred financing costs of \$265,000. Accounts payable, accrued expenses and other current liabilities increased by \$568,000 due principally to an increase in accounts payable due to the timing of seasonal product purchases for our Branded Product Program and Company-owned restaurants, as well as an increase in accrued rebates of \$187,000 as a result of higher sales. Additionally, there was an increase in accrued corporate taxes of \$2,483,000 due to the timing of estimated tax payments and higher earnings, as well as an increase in dividends payable of \$2,043,000 due to the timing of our first quarter fiscal 2025 dividend payment. Offsetting these increases was a reduction in accrued payroll and other benefits of \$2,027,000 resulting from the payment of year-end fiscal 2024 compensation as well as a reduction in accrued interest expense of \$997,000 resulting from our May 2024 semi-annual interest payment on our 2025 Notes.

## **Investing activities**

Cash used in investing activities of \$41,000 is primarily comprised of capital expenditures incurred for our Branded Product Program and our Coney Island restaurants.

## **Financing activities**

### *Credit Facility*

On July 10, 2024 (the “Effective Date”), the Company entered into a five-year unsecured Credit Agreement (the “Credit Agreement”) among the Company, as borrower, direct and indirect subsidiaries of the Company, as guarantors, the lenders from time to time party thereto (the “Lenders”) and Citibank, N.A., as administrative agent, swing line lender, L/C issuer and a Lender.

The Credit Agreement provides for a term loan facility (“Term Loan”) of \$60,000,000 and a revolving credit facility (“Revolving Loan”) of up to \$10,000,000. The Credit Agreement also provides that the Company has the right from time to time during the term of the Credit Agreement to request the Lenders for incremental revolving loan borrowing increases of up to an additional \$10,000,000 in the aggregate, subject to, among other items, the Lenders agreeing to lend any such additional amounts and compliance with terms specified in the Credit Agreement. The Credit Agreement matures on July 10, 2029.

The Company borrowed \$60,000,000 in Term Loan borrowings on the Effective Date to refinance and redeem its 2025 Notes. The Company will use any Revolving Loan borrowings under the Credit Agreement for working capital and general corporate purposes. See NOTE T – SUBSEQUENT EVENTS in the accompanying consolidated financial statements for additional information on the Credit Agreement.

### *Share Repurchases*

In 2016, the Board authorized increases to the sixth stock repurchase plan for the purchase of up to 1,200,000 shares of its common stock on behalf of the Company. As of June 30, 2024, Nathan’s has repurchased 1,101,884 shares at a cost of \$39,000,000 under the sixth stock repurchase plan. At June 30, 2024, there were 98,116 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. There were no stock repurchases during the fiscal 2025 period. We may return capital to our stockholders through stock repurchases, subject to any restrictions in our debt instruments including our new Credit Agreement, although there is no assurance that the Company will make any repurchases under its existing stock repurchase plan.

### *Common Stock Dividends*

As discussed above, we had cash and cash equivalents at June 30, 2024 aggregating \$25,979,000. Our Board routinely monitors and assesses its cash position and our current and potential capital requirements. The Company paid its first quarterly cash dividend of fiscal 2025 of \$2,043,000 on July 2, 2024.

Effective August 8, 2024, the Company declared its second quarter fiscal 2025 dividend of \$0.50 per common share to stockholders of record as of the close of business on August 26, 2024, which is payable on September 6, 2024.

If the Company pays regular quarterly cash dividends for the remainder of fiscal 2025 at the same rate as declared in the first quarter of fiscal 2025, the Company’s total cash requirement for dividends for all of fiscal 2025 would be approximately \$8,169,000 based on the number of shares of common stock outstanding at August 8, 2024. The Company intends to declare and pay quarterly cash dividends; however, there can be no assurance that any additional quarterly dividends will be declared or paid or of the amount or timing of such dividends, if any.

Our ability to pay future dividends is limited by the terms of our debt instruments. In addition, 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 and the terms of our debt instruments.

## Cash Flow Outlook

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 principal and interest obligations under the Credit Agreement, fund our dividend program and may 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. During the fiscal year ending March 30, 2025, we expect to make cash interest payments of \$3,125,000 on the 2025 Notes. While our Credit Agreement bears interest at a fluctuating interest rate based on the Secured Overnight Financing Rate (“SOFR”) plus a spread adjustment, if the Company makes cash interest payments on the Term Loan borrowings at the interest rate established on the Effective Date, then during the fiscal year ended March 30, 2025, we expect to make cash interest payments of approximately \$2,000,000 on the Term Loan borrowings.

We may from time to time seek to make voluntary prepayments of our debt instruments. Such voluntary prepayments, if any, will depend on market conditions, our liquidity requirements, satisfactory compliance of conditions pursuant to our debt instruments and other factors.

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

## Contractual Obligations

At June 30, 2024, 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 such lease.

At June 30, 2024, our contractual obligations primarily consist of the 2025 Notes and the related interest payments, operating leases, and employment agreements with certain executive officers. These contractual obligations impact our short-term and long-term liquidity and capital resource needs. See NOTE P – LONG TERM DEBT, NOTE Q – LEASES, AND NOTE T – SUBSEQUENT EVENTS in the accompanying consolidated financial statements included in Part I, Item 1. for additional information.

## Inflationary Pressures

Inflationary pressures on commodity prices, most notably for beef and beef trimmings, have impacted our consolidated results of operations during the fiscal 2025 period, and this trend may continue through the remainder of fiscal year 2025.

Our average cost of hot dogs during the fiscal 2025 period was approximately 1.1% higher than during the fiscal 2024 period. Inherent volatility experienced in certain commodity markets, such as those for beef and beef trimmings due to seasonal shifts, climate conditions, industry demand, inflationary pressures and other macroeconomic factors could have an adverse effect on our results of operations. This impact will depend on our ability to manage such volatility through price increases and product mix. We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during fiscal 2025. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we entered into purchase commitments for a portion of our hot dogs to reduce the impact of increasing market prices. We may attempt to enter into similar purchase arrangements for hot dogs and other products in the future.

We have experienced competitive pressure on labor rates as a result of the increase in the minimum hourly wage for fast food workers where our Company-owned restaurants are located. On January 1, 2024, the minimum wage increased to \$16.00 in New York City, Long Island and Westchester which will be followed by \$0.50 annual increases in 2025 and 2026. Further, beginning in 2027, the minimum wage across New York State will increase annually according to the Consumer Price Index. There has also been an increased demand for labor at all levels which has resulted in greater challenges retaining adequate staffing levels at our Company-owned restaurants; our franchised restaurants and Branded Menu Program locations; as well as for certain vendors in our supply chain that we depend on for our commodities. We remain in contact with our major suppliers and to date we have not experienced significant disruptions in our supply chain.

We believe that these increases in the minimum wage and other changes in employment laws have had 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.

We expect to continue experiencing volatility in oil and gas prices on our distribution costs for food products and utility costs in the Company-owned restaurants and volatile insurance costs resulting from the uncertainty of the insurance markets.

Continued increases in labor costs, commodity prices and other operating expenses, including health care, could adversely affect our operations. We attempt to manage inflationary pressure, and rising commodity costs, at least in part, through raising prices. Delays in implementing price increases, competitive pressures, a decline in consumer spending levels and other factors may limit our ability to offset these rising costs. Volatility in commodity prices, including beef and beef trimmings could have a significant adverse effect on our results of operations.

The Company's business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations," any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, also see the discussions in "Forward-Looking Statements" and "Notes to Consolidated Financial Statements" in this Form 10-Q and "Risk Factors" in our Form 10-K for our fiscal year ended March 31, 2024.

### **Item 3. 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 June 30, 2024, Nathan's cash and cash equivalents balance aggregated \$25,979,000. Earnings on this cash would increase or decrease by approximately \$65,000 per annum for each 0.25% change in interest rates.

#### **Borrowings**

On July 10, 2024, we entered into a Credit Agreement and borrowed \$60,000,000 in Term Loan borrowings to refinance and redeem the 2025 Notes. Our Credit Agreement bears interest at a fluctuating interest rate based on the Secured Overnight Financing Rate ("SOFR") plus a spread adjustment. Accordingly, a rising interest rate environment would result in higher interest expense due on borrowings. A hypothetical 100 bps increase in 30-day SOFR on the unsecured Term Loan borrowings would lead to an increase of \$600,000 in cash interest costs over the next twelve months. We currently do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings.

#### **Commodity Costs**

Inflationary pressures on commodity prices have directly impacted our consolidated results of operations during the fiscal 2025 period, most notably within our restaurant operations and Branded Product Program segments. We expect this trend to continue throughout fiscal 2025. Our average cost of hot dogs during the fiscal 2025 period was approximately 1.1% higher than during the fiscal 2024 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 2025. Factors that affect beef prices are outside of our control and include foreign and domestic supply and demand, inflation, weather and seasonality. To the extent that beef prices increase as compared to earlier periods, it could impact our results of operations. In the past, we have entered into purchase commitments for a portion of our hot dogs to reduce the impact of increasing market prices. We may attempt to enter into 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 rising rates.

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 Branded Product Program 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 Branded Product Program 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% in the cost of our food and paper products for the period ended June 30, 2024 would have increased or decreased our cost of sales by approximately \$2,343,000.

#### **Foreign Currencies**

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

**Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Controls**

There were no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on the Effectiveness of Controls**

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

None.

### **Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the fiscal year ended March 31, 2024, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Nathan's. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.**

None.

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

None.

### **Item 4. Mine Safety Disclosures.**

None.

### **Item 5. Other Information.**

Effective August 8, 2024, the Board declared its quarterly cash dividend of \$0.50 per share payable on September 6, 2024 to shareholders of record as of the close of business on August 26, 2024.

**Item 6. Exhibits.**

- 31.1 [\\*Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [\\*Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [\\*Certification by Eric Gatoff, CEO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [\\*Certification by Robert Steinberg, CFO, Nathan's Famous, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.1 \*The following materials from the Nathan's Famous, Inc., Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of Changes in Stockholders' Deficit, (iv) the Consolidated Statements of Cash Flows and (v) related notes.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\*Filed herewith.

## SIGNATURES

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

NATHAN'S FAMOUS, INC.

Date: August 8, 2024

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

Date: August 8, 2024

By: /s/ Robert Steinberg  
Vice President – Finance and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Eric Gatoff, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2024 of Nathan's Famous, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

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

## CERTIFICATION

I, Robert Steinberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2024 of Nathan's Famous, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

/s/ Robert Steinberg  
Robert Steinberg  
Vice President – Finance and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric Gatoff, Chief Executive Officer of Nathan's Famous, Inc., certify that:

The quarterly report on Form 10-Q of Nathan's Famous, Inc. for the period ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Nathan's Famous, Inc.

/s/ Eric Gatoff  
Eric Gatoff  
Chief Executive Officer  
(Principal Executive Officer)  
Date: August 8, 2024

A signed original of this written statement required by Section 906 has been provided to Nathan's Famous, Inc. and will be retained by Nathan's Famous, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert Steinberg, Chief Financial Officer of Nathan's Famous, Inc., certify that:

The quarterly report on Form 10-Q of Nathan's Famous, Inc. for the period ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Nathan's Famous, Inc.

/s/ Robert Steinberg

Robert Steinberg

Vice President – Finance and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: August 8, 2024

A signed original of this written statement required by Section 906 has been provided to Nathan's Famous, Inc. and will be retained by Nathan's Famous, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.