

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 290549

Mark One

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended September 29, 1996.
- Transition report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-3189

NATHAN'S FAMOUS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

11-3166443  
(IRS employer identification number)

1400 Old Country Road, Westbury, New York 11590  
(Address of principal executive offices including zip code)

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

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 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

At September 29, 1996, an aggregate of 4,722,216 shares of the registrant's common stock, par value of \$.01, were outstanding.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

INDEX

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets - September 29, 1996 and March 31, 1996	3
Consolidated Statements of Earnings - Thirteen Weeks Ended September 29, 1996 and September 24, 1995	4
Consolidated Statements of Earnings - Twenty-six Weeks Ended September 29, 1996 and September 24, 1995	5
Consolidated Statements of Stockholders' Equity - Twenty-six Weeks Ended September 29, 1996	6
Consolidated Statements of Cash Flows - Twenty-six Weeks Ended September 29, 1996 and September 24, 1995	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	13
SIGNATURES	14

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

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

	September 29, 1996 (Unaudited)	March 31, 1996
Assets		
Current assets:		
Cash and cash equivalents including restricted cash of \$280 and \$280, respectively	\$2,050	\$ 801
Marketable investment securities	5,843	6,128
Franchise and other receivables	1,004	1,108
Inventory	275	226
Prepaid income taxes	893	746
Prepaid expenses and other current assets	210	331
Deferred income taxes	571	571
Total current assets	10,846	9,911
Property and equipment, net	5,707	5,615
Intangible assets, net	11,833	12,025
Other assets, net	193	214
	\$28,579	\$27,765
Current liabilities:		
Current maturities of long-term debt	\$17	\$23
Accounts payable	700	1,003
Accrued expenses and other current liabilities	5,117	4,671
Deferred franchise fees	252	277
Total current liabilities	6,086	5,974
Long-term debt, net of current maturities	27	35
Deferred area development fees	98	200
Deferred income taxes	---	---
Other Liabilities	327	414
Total liabilities	6,538	6,623
Stockholders' equity:		
Common stock, \$.01 par value - 20,000,000 shares authorized, 4,722,216 issued and outstanding	47	47
Additional paid-in-capital	32,285	32,261
Accumulated deficit	(10,291)	(11,166)
Total stockholders' equity	22,041	21,142
	\$28,579	\$27,765

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
THIRTEEN WEEKS ENDED SEPTEMBER 29, 1996 AND SEPTEMBER 24, 1995  
(In thousands, except per share amounts)  
(Unaudited)

	1996	1995
Sales	\$5,957	\$5,911
Franchise fees and royalties	881	895
License royalties	304	363
Other income	220	172
Total revenues	7,362	7,341
Costs and expenses:		
Cost of restaurant sales	3,427	3,367
Restaurant operating expenses	1,780	1,840
Depreciation and amortization	260	444
Amortization of intangible assets, debt issuance and pre-opening costs	103	154
General and administrative	947	1,107
Interest expense	12	6
Total costs and expenses	6,529	6,918
Earnings before income taxes	833	423
Provision for income taxes	353	187
Net earnings	\$ 480	\$ 236
Net earnings per common share	\$ 0.10	\$ 0.05
Weighted average number of common and common equivalent shares outstanding	4,722	4,722

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
TWENTY-SIX WEEKS ENDED SEPTEMBER 29, 1996 AND SEPTEMBER 24, 1995  
(In thousands, except per share amounts)  
(Unaudited)

	1996	1995
Sales	\$11,730	\$11,286
Franchise fees and royalties	1,694	1,700
License royalties	558	721
Other income	352	457
Total revenues	14,334	14,164
Costs and expenses:		
Cost of restaurant sales	6,740	6,433
Restaurant operating expenses	3,445	3,384
Depreciation and amortization	521	865
Amortization of intangible assets, debt issuance and pre-opening costs	199	295
General and administrative	1,923	2,313
Interest expense	14	11
Total costs and expenses	12,842	13,301
Earnings before income taxes	1,492	863
Provision for income taxes	617	394
Net earnings	\$ 875	\$ 469
Net earnings per common share	\$ 0.19	\$ 0.10
Weighted average number of common and common equivalent shares outstanding	4,722	4,722

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
TWENTY-SIX WEEKS ENDED SEPTEMBER 29, 1996  
(In thousands, except share amounts)  
(Unaudited)

	Common Shares	Common Stock	Additional Paid in- Capital	Deferred Compen- sation	Accum- ulated Deficit	Total Stock- holders' Equity
Balance, March 31, 1996	4,722,216	\$ 47	\$ 32,388	\$(127)	\$(11,166)	\$21,142
Amortization of deferred compensation relating to restricted stock				24		24
Net earnings	-----	-----	-----	-----	875	875
Balance, Sept. 29, 1996	4,722,216	\$ 47	\$ 32,388	\$(103)	\$(10,291)	\$22,041
	-----	-----	-----	-----	-----	-----

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
TWENTY-SIX WEEKS ENDED SEPTEMBER 29, 1996 AND SEPTEMBER 24, 1995  
(In thousands)  
(Unaudited)

	1996	1995
Cash flows from operating activities:		
Net earnings	\$ 875	469
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	521	865
Amortization of intangible assets	199	295
Provision for doubtful accounts	30	104
Other	24	23
Changes in assets and liabilities:		
Marketable investment securities	285	(3,674)
Franchise and other receivables	74	(515)
Inventory	(49)	(347)
Prepays and other current assets	(30)	138
Deferred income taxes	-	105
Accounts payable and accrued expenses	143	210
Deferred franchise fees	(25)	-
Other assets	21	10
Deferred area development fees	(102)	(77)
Other non current liabilities	(87)	34
Net cash (used in) provided by operating activities	1,879	(2,360)
Cash flows from investing activities:		
Purchase of property and equipment	(616)	(1,140)
Purchase of franchise restaurants	-	(150)
Net cash used in investing activities	(616)	(1,290)
Cash flows from financing activities:		
Principal repayment of borrowings	(14)	(30)
Net cash used in financing activities	(14)	(30)
Net increase (decrease) in cash and cash equivalents	1,249	(3,680)
Cash and cash equivalents, beginning of period	801	4,086
Cash and cash equivalents, end of period	\$ 2,050	\$ 406
Cash paid during the period for:		
Interest	\$ 3	\$ 11
Income taxes	90	458

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 29, 1996

NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements of Nathan's Famous, Inc. and Subsidiaries (the "Company") for the thirteen and twenty-six week periods ended September 29, 1996 and September 24, 1995 have been prepared in accordance with generally accepted accounting principles. These financial statements include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of financial condition, results of operations and cash flows for such periods. However, these results are not necessarily indicative of results for any other interim period or the full year.

Certain information and footnote disclosures normally included in financial statements in accordance with generally accepted accounting principles have been omitted pursuant to the requirements of the Securities and Exchange Commission. Management believes that the disclosures included in the accompanying interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996.

NOTE B - RECLASSIFICATIONS

Certain reclassifications of prior period balances have been made to conform to the September 29, 1996 presentation.

NOTE C - EARNINGS PER SHARE

Weighted average common shares outstanding for the thirteen and twenty-six weeks ended September 29, 1996 and September 24, 1995 were 4,722,216. There were no common stock equivalents for the thirteen and twenty-six weeks ended September 29, 1996 and September 24, 1995.

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

### Results of Operations

Thirteen weeks ended September 29, 1996 compared to September 24, 1995

#### Revenues

Company-owned restaurant sales increased 0.8% or \$46,000 to \$5,957,000 for the thirteen weeks ended September 29, 1996 ("second quarter fiscal 1997") from \$5,911,000 for the thirteen weeks ended September 24, 1995 ("second quarter fiscal 1996"). The Company opened one new unit during fiscal 1997 which generated sales of \$148,000 during the quarter. Comparable unit sales (units operating for 18 months or longer as of the beginning of the fiscal year) declined \$132,000 or 2.5% during the quarter. The Company has implemented a more aggressive local store marketing campaign and value pricing strategy in order to address the sales softness. In March 1996 the Company completed the renovation of two of its larger restaurants and has experienced sales increases at such stores thus far. Plans are currently being developed to renovate and modernize the appearance of certain other units. At September 29, 1996 and September 24, 1995, there were 26 and 27 Company-owned units, respectively.

Franchise fees and royalties decreased by \$14,000 or 1.6% to \$881,000 in the second quarter fiscal 1997 compared to \$895,000 in the second quarter fiscal 1996. Franchise royalties decreased by \$3,000 or 0.5% to \$692,000 in the second quarter fiscal 1997 as compared to \$695,000 in the second quarter fiscal 1996. Franchisee sales upon which royalties are based decreased to \$17,312,000 in the second quarter fiscal 1997 as compared to \$17,689,000 in the second quarter fiscal 1996 due primarily to lower comparable sales which were partially offset by sales from the new units. At September 29, 1996 there were 180 franchise units as compared to 168 at September 24, 1995. Franchise fee income was \$189,000 in the second quarter fiscal 1997 as compared to \$200,000 in the second quarter fiscal 1996. During the second quarter fiscal 1997 franchisees and licensees opened 15 new units as compared to 11 new units opened during the second quarter fiscal 1996. Lower franchise fees were earned during the second quarter fiscal 1997 due mostly to the type of units opened which are smaller, offer a limited menu and provide lower initial fees but ongoing royalties based on a higher percentage of sales.

License royalties decreased by \$59,000 or 16.3% to \$304,000 in the second quarter 1996 as compared to \$363,000 in the second quarter fiscal 1996. This decrease results from the Company no longer amortizing the deferred fee received from SMG, Inc., in connection with their license agreement for the sale of Nathan's frankfurters in supermarkets. The amortization period concluded in February 1996.

Other income increased to \$220,000 in the second quarter fiscal 1997 from \$172,000 in the second quarter fiscal 1996 primarily due to reversing an accrual for expected costs in connection with the closing of a restaurant.



## Costs and Expenses

Cost of restaurant sales increased by \$60,000 from \$3,367,000 in the second quarter fiscal 1996 to \$3,427,000 in the second quarter fiscal 1997. As a percentage of restaurant sales, cost of restaurant sales increased to 57.5% in the second quarter fiscal 1997 as compared to 57.0% in the second quarter fiscal 1996 due principally to the net impact of higher percentage food costs resulting from the Company's pricing strategies which were mostly offset by reduced labor costs.

Restaurant operating expenses decreased as a percentage of restaurant sales from 31.1% in the second quarter fiscal 1996 to 29.9% in the second quarter fiscal 1997. This decrease primarily resulted from the benefit derived from closing two unprofitable restaurants in the first quarter of fiscal 1997.

Depreciation and amortization decreased by \$184,000 or 41.4% from \$444,000 in the second quarter fiscal 1996 to \$260,000 in the second quarter fiscal 1997. Amortization of intangibles, debt issuance and pre-opening costs decreased by \$51,000 or 33.1% from \$154,000 in the second quarter fiscal 1996 to \$103,000 in the second quarter fiscal 1997. These decreases are primarily attributable to the reduced depreciation and amortization expense resulting from the implementation of Financial Accounting Standards Board Statement No. 121 during the fourth quarter of fiscal 1996.

General and administrative expenses decreased by \$160,000 or 14.5% to \$947,000 in the second quarter fiscal 1997 as compared to \$1,107,000 in the second quarter fiscal 1996. This decrease partially results from corporate staff reductions made during fiscal 1997. Additionally, certain one-time benefits and timing differences further lowered general and administrative expenses for the second quarter fiscal 1997. As a percentage of total revenues, general & administrative costs for the second quarter fiscal 1997 were 12.9% as compared to 15.1% for the second quarter fiscal 1996.

## Income Tax Provision

In the second quarter fiscal 1997, the income tax provision was \$353,000 or 42.4% of income before income taxes. In the second quarter fiscal 1996, the income tax provision was \$187,000 or 44.2% of income before income taxes. The fiscal 1997 tax rate has been reduced to reflect the Company's estimated effective state tax rate.

Twenty-six weeks ended September 29, 1996 compared to September 24, 1995

## Revenues

Restaurant sales increased 3.9% or \$444,000 to \$11,730,000 for the twenty-six weeks ended September 29, 1996 ("fiscal 1997") from \$11,286,000 for the twenty-six weeks ended September 24, 1995 ("fiscal 1996"). The Company opened one new unit during fiscal 1997 which generated sales of \$148,000. Comparable unit sales (units operating for 18 months or longer as of the beginning of the fiscal year) declined \$178,000 or 1.8% during the period. Sales continue to be adversely affected by the discount strategies of the Company's principal competitors, increased competition and certain external factors affecting specific restaurants. The Company has implemented a more aggressive local store marketing campaign and value pricing strategy in order to address the sales softness. In March 1996 the Company completed the renovation of two of its larger restaurants and has experienced sales increases at such stores thus far. Plans are currently being developed to renovate and modernize the appearance of certain other units.

Franchise fees and royalties decreased by \$6,000 or 0.4% to \$1,694,000 in fiscal 1997 compared to \$1,700,000 in fiscal 1996. Franchise royalties declined to \$1,316,000 in fiscal 1997 as compared to \$1,357,000 in fiscal 1996, representing a decrease of 3.0% or \$41,000. Franchise restaurant sales upon which royalties are based decreased to \$33,165,000 in fiscal 1997 as compared to \$34,626,000 in fiscal 1996 primarily due to lower comparable sales which were partially offset by sales from the new units. Franchise fee income increased to \$378,000 in fiscal 1997 as compared to \$343,000 in fiscal 1996. During fiscal 1997, franchisees and licensees opened 22 new units versus fiscal 1996 in which 20 new units were opened. Higher franchise fees were earned during fiscal 1997 as compared to fiscal 1996 due primarily to the higher recognition of fees associated with expired development agreements.

License royalties decreased by \$163,000 or 22.6% to \$558,000 in fiscal 1997 as compared to \$721,000 in fiscal 1996. The majority of this decrease results from the Company no longer amortizing the deferred fee received from SMG, Inc., in connection with their license agreement for the sale of Nathan's frankfurters in supermarkets. The amortization period concluded in February 1996.

Other income decreased to \$352,000 in fiscal 1997 from \$457,000 in fiscal 1996 primarily due to reduced investment income.

#### Costs and Expenses

Cost of restaurant sales increased by \$307,000 from \$6,433,000 in fiscal 1996 to \$6,740,000 in fiscal 1997. This increase primarily results from costs associated with operating different units during fiscal 1997. As a percentage of restaurant sales, the cost of restaurant sales increased to 57.5% in fiscal 1997 as compared to 57.0% in fiscal 1996 due principally to the net impact of higher percentage food costs resulting from the Company's pricing strategies which were mostly offset by reduced labor costs.

Restaurant operating expenses decreased as a percentage of restaurant sales from 30.0% in the fiscal 1996 period to 29.4% in the fiscal 1997. This decrease primarily resulted from the benefit derived from closing two unprofitable restaurants in the first quarter of fiscal 1997.

Depreciation and amortization decreased by \$344,000 or 39.8% from \$865,000 in fiscal 1996 to \$521,000 in fiscal 1997. Amortization of intangibles, debt issuance and pre-opening costs decreased by \$96,000 or 32.5% from \$295,000 in fiscal 1996 to \$199,000 in fiscal 1997. These decreases are primarily attributable to the reduced depreciation and amortization expense resulting from the implementation of Financial Accounting Standards Board Statement No. 121 during the fourth quarter of fiscal 1996.

General and administrative expenses decreased by \$390,000 or 16.9% to \$1,923,000 in fiscal 1997 as compared to \$2,313,000 in fiscal 1996. This decrease partially results from corporate staff reductions made during fiscal 1996 and the first quarter fiscal 1997. Additionally, certain one-time benefits and timing differences further lowered general and administrative expenses for fiscal 1997. As a percentage of total revenues, general & administrative costs for fiscal 1997 was 13.4% as compared to 16.3% in fiscal 1996.

#### Income Tax Provision

In fiscal 1997 the income tax provision was \$617,000 or 41.4% of income before income taxes. In fiscal 1996 the income tax provision was \$394,000 or 45.7% of income before income taxes. The fiscal 1997 tax rate has been reduced to reflect the Company's estimated effective state tax rate.

#### Liquidity and Capital Resources

Cash and cash equivalents at September 29, 1996 aggregated \$2,050,000, increasing by \$1,249,000 during the fiscal 1997 period. At September 29, 1996, marketable investment securities totalled \$5,843,000 and net working capital increased to \$4,760,000 from \$3,937,000 at March 31, 1996.

Cash provided by operations of \$1,879,000 in fiscal 1997 to date is primarily attributable to net income of \$875,000, non-cash charges of \$774,000, including depreciation and amortization of \$720,000, a decrease in marketable investment securities of \$285,000, an increase in accounts payable and accrued expenses of \$143,000, a decrease in franchise and other receivables of \$74,000 and decreases in deferred area development fees and other non current liabilities of \$102,000 and \$87,000, respectively.

Cash used in investing activities of \$616,000 represents property and equipment purchases relating to the construction of a new Company-owned unit which opened in July 1996, and other fixed asset additions.

Management believes that available cash, marketable investment securities, and internally generated funds should provide sufficient capital for its planned operations and expansion program through fiscal 1997. The Company also maintains a \$5,000,000 uncommitted bank line of credit. The Company has not borrowed any funds to date under this line of credit.

PART II. OTHER INFORMATION

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter ended September 29, 1996.

SIGNATURES

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

NATHAN'S FAMOUS, INC.

Date: November 4, 1996

By: /s/ Wayne Norbitz  
Wayne Norbitz  
President and Chief Operating Officer  
(Principal Executive Officer)

Date: November 4, 1996

By: /s/ Ronald DeVos  
Ronald DeVos  
Vice President - Finance  
and Chief Financial Officer

The schedule contains summary financial information extracted from the condensed financial statements for the quarter ended September 30, 1996 and is qualified in its entirety by reference to such statements.

(All figures in thousands except per share amounts.)

6-mos	Mar-30-1997	Sep-29-1996
		2,050
	5,843	
	1,610	
	606	
	275	
	10,846	11,778
	6,071	
	28,579	
6,086		0
0		0
		47
	21,994	
28,579		11,730
	2,604	6,740
	4,165	
	1,893	
	30	
	14	
	1,492	
	617	
875		0
	0	
	0	
		0
	875	
	0.19	
	0.00	