

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 **September 24, 2023**.
- 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, Second Floor – Wing A, **Jericho, New York 11753**

(Address and Zip Code of principal executive offices)

**(516) 338-8500**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 October 27, 2023 an aggregate of 4,079,720 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**  
(in thousands, except share and per share amounts)

	September 24, 2023 (Unaudited)	March 26, 2023
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 36,978	\$ 29,861
Accounts and other receivables, net (Note G)	15,762	15,066
Inventories	921	539
Prepaid expenses and other current assets (Note H)	846	1,895
Total current assets	54,507	47,361
Property and equipment, net of accumulated depreciation of \$11,411 and \$10,871, respectively	2,949	3,321
Operating lease assets (Note Q)	6,638	6,421
Goodwill	95	95
Intangible asset, net (Note I)	782	869
Deferred income taxes	467	375
Other assets	154	168
Total assets	\$ 65,592	\$ 58,610
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,611	\$ 6,461
Accrued expenses and other current liabilities (Note K)	6,638	8,130
Current portion of operating lease liabilities (Note Q)	1,875	1,782
Deferred franchise fees	336	336
Total current liabilities	14,460	16,709
Long-term debt, net of unamortized debt issuance costs of \$768 and \$952, respectively (Note P)	79,232	79,048
Operating lease liabilities (Note Q)	5,408	5,406
Other liabilities	783	737
Deferred franchise fees	1,080	1,272
Total liabilities	100,963	103,172
<b>COMMITMENTS AND CONTINGENCIES (Note R)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,369,235 shares issued; and 4,079,720 shares outstanding at September 24, 2023 and March 26, 2023	94	94
Additional paid-in capital	62,924	62,565
Accumulated deficit	(11,727)	(20,559)
Stockholders' equity before treasury stock	51,291	42,100
Treasury stock, at cost, 5,289,515 shares at September 24, 2023 and March 26, 2023	(86,662)	(86,662)
Total stockholders' deficit	(35,371)	(44,562)
Total liabilities and stockholders' deficit	\$ 65,592	\$ 58,610

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

**Nathan's Famous, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
(in thousands, except per share amounts)  
(Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	<b>September 24,</b>	September 25,	<b>September 24,</b>	September 25,
	<b>2023</b>	2022	<b>2023</b>	2022
<b>REVENUES</b>				
Sales	\$ 28,545	\$ 27,301	\$ 57,373	\$ 54,195
License royalties	8,339	8,413	19,997	19,727
Franchise fees and royalties	1,291	1,199	2,366	2,292
Advertising fund revenue	569	584	993	1,003
Total revenues	<u>38,744</u>	<u>37,497</u>	<u>80,729</u>	<u>77,217</u>
<b>COSTS AND EXPENSES</b>				
Cost of sales	24,187	21,898	48,871	44,565
Restaurant operating expenses	1,340	1,253	2,383	2,285
Depreciation and amortization	315	301	628	534
General and administrative expenses	3,229	3,372	7,287	6,961
Advertising fund expense	569	759	993	1,178
Total costs and expenses	<u>29,640</u>	<u>27,583</u>	<u>60,162</u>	<u>55,523</u>
Income from operations	9,104	9,914	20,567	21,694
Interest expense	(1,413)	(1,943)	(2,827)	(3,887)
Interest income	150	80	212	102
Other income, net	23	34	44	56
Income before provision for income taxes	7,864	8,085	17,996	17,965
Provision for income taxes	2,153	2,127	4,897	4,870
Net income	<u>\$ 5,711</u>	<u>\$ 5,958</u>	<u>\$ 13,099</u>	<u>\$ 13,095</u>
<b>PER SHARE INFORMATION</b>				
Weighted average shares used in computing income per share:				
Basic	4,080	4,083	4,080	4,098
Diluted	<u>4,092</u>	<u>4,083</u>	<u>4,090</u>	<u>4,098</u>
Income per share:				
Basic	<u>\$ 1.40</u>	<u>\$ 1.46</u>	<u>\$ 3.21</u>	<u>\$ 3.20</u>
Diluted	<u>\$ 1.40</u>	<u>\$ 1.46</u>	<u>\$ 3.20</u>	<u>\$ 3.20</u>
Dividends declared per share	<u>\$ 0.50</u>	<u>\$ 0.45</u>	<u>\$ 1.00</u>	<u>\$ 0.90</u>

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

**Nathan's Famous, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
Thirteen weeks ended September 24, 2023 and September 25, 2022  
(in thousands, except share amounts)  
(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
					Shares	Amount	
<b>Balance, June 25, 2023</b>	9,369,235	\$ 94	\$ 62,742	\$ (15,398)	5,289,515	\$ (86,662)	\$ (39,224)
<b>Dividends on common stock</b>	-	-	-	(2,040)	-	-	(2,040)
<b>Share-based compensation</b>	-	-	182	-	-	-	182
<b>Net income</b>	-	-	-	5,711	-	-	5,711
<b>Balance, September 24, 2023</b>	<u>9,369,235</u>	<u>\$ 94</u>	<u>\$ 62,924</u>	<u>\$ (11,727)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (35,371)</u>

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
					Shares	Amount	
<b>Balance, June 26, 2022</b>	9,369,235	\$ 94	\$ 62,315	\$ (27,334)	5,274,451	\$ (85,840)	\$ (50,765)
<b>Repurchase of common stock</b>					15,064	(822)	(822)
<b>Dividends on common stock</b>	-	-	-	(1,836)	-	-	(1,836)
<b>Share-based compensation</b>	-	-	8	-	-	-	8
<b>Net income</b>	-	-	-	5,958	-	-	5,958
<b>Balance, September 25, 2022</b>	<u>9,369,235</u>	<u>\$ 94</u>	<u>\$ 62,323</u>	<u>\$ (23,212)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (47,457)</u>

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

**Nathan's Famous, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
Twenty-six weeks ended September 24, 2023 and September 25, 2022  
(in thousands, except 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 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 (Note B)</b>	-	-	-	(187)	-	-	(187)
<b>Dividends on common stock</b>	-	-	-	(4,080)	-	-	(4,080)
<b>Share-based compensation</b>	-	-	359	-	-	-	359
<b>Net income</b>	-	-	-	13,099	-	-	13,099
<b>Balance, September 24, 2023</b>	<u>9,369,235</u>	<u>\$ 94</u>	<u>\$ 62,924</u>	<u>\$ (11,727)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (35,371)</u>

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
					Shares	Amount	
<b>Balance, March 27, 2022</b>	9,369,235	\$ 94	\$ 62,307	\$ (32,619)	5,254,081	\$ (84,770)	\$ (54,988)
<b>Repurchase of common stock</b>	-	-	-	-	35,434	(1,892)	(1,892)
<b>Dividends on common stock</b>	-	-	-	(3,688)	-	-	(3,688)
<b>Share-based compensation</b>	-	-	16	-	-	-	16
<b>Net income</b>	-	-	-	13,095	-	-	13,095
<b>Balance, September 25, 2022</b>	<u>9,369,235</u>	<u>\$ 94</u>	<u>\$ 62,323</u>	<u>\$ (23,212)</u>	<u>5,289,515</u>	<u>\$ (86,662)</u>	<u>\$ (47,457)</u>

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

**Nathan's Famous, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Twenty-six weeks ended September 24, 2023 and September 25, 2022  
(in thousands)  
(Unaudited)

	September 24, 2023	September 25, 2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,099	\$ 13,095
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation and amortization	628	534
Gain on disposal of property and equipment	-	(14)
Amortization of debt issuance costs	184	254
Share-based compensation expense	359	16
Provision for doubtful accounts	55	80
Deferred income taxes	(27)	15
Other non-cash items	(122)	(123)
<b>Changes in operating assets and liabilities:</b>		
Accounts and other receivables, net	(1,003)	(2,877)
Inventories	(382)	(201)
Prepaid expenses and other current assets	1,049	573
Other assets	14	13
Accounts payable, accrued expenses and other current liabilities	(2,342)	(1,384)
Deferred franchise fees	(192)	(259)
Other liabilities	46	50
<b>Net cash provided by operating activities</b>	<b>11,366</b>	<b>9,772</b>
<b>Cash flows from investing activities:</b>		
Insurance proceeds for property and equipment	-	42
Purchase of property and equipment	(169)	(440)
<b>Net cash used in investing activities</b>	<b>(169)</b>	<b>(398)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid to stockholders	(4,080)	(3,688)
Repurchase of treasury stock	-	(1,892)
<b>Net cash used in financing activities</b>	<b>(4,080)</b>	<b>(5,580)</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,117</b>	<b>3,794</b>
Cash and cash equivalents, beginning of period	29,861	50,063
<b>Cash and cash equivalents, end of period</b>	<b>\$ 36,978</b>	<b>\$ 53,857</b>
<b>Cash paid during the period for:</b>		
Interest	\$ 2,650	\$ 3,644
Income taxes	\$ 4,265	\$ 3,576
<b>Non-cash financing activity:</b>		
Dividends declared per share	\$ 1.00	\$ 0.90

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

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

September 24, 2023

(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 and twenty-six week periods ended September 24, 2023 and September 25, 2022 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 2024 fiscal year will end on March 31, 2024 and will contain 53 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 26, 2023 as filed with the SEC on June 8, 2023.

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 26, 2023.

**NOTE B – ADOPTION OF NEW ACCOUNTING STANDARD**

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," ("CECL") which requires measurement and recognition of expected versus incurred losses for financial assets held. The Company adopted ASU 2016-13 as of March 27, 2023 (the first day of fiscal 2024) under the modified retrospective method. Accordingly, the consolidated financial statements have not been adjusted prior to the date of adoption.

Upon adoption, the Company recorded an increase to the allowance for credit losses of \$252 and a cumulative effect adjustment to retained earnings of \$187, net of \$65 of income taxes.

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 and twenty-six weeks ended September 24, 2023 and September 25, 2022 are as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Branded Products	\$ 23,352	\$ 22,030	\$ 48,522	\$ 45,201
Company-owned restaurants	5,193	5,271	8,851	8,994
Total sales	<u>28,545</u>	<u>27,301</u>	<u>57,373</u>	<u>54,195</u>
License royalties	8,339	8,413	19,997	19,727
Franchise royalties	1,148	1,055	2,128	1,956
Franchise fees	143	144	238	336
Total franchise fees and royalties	<u>1,291</u>	<u>1,199</u>	<u>2,366</u>	<u>2,292</u>
Advertising fund revenue	569	584	993	1,003
Total revenues	<u>\$ 38,744</u>	<u>\$ 37,497</u>	<u>\$ 80,729</u>	<u>\$ 77,217</u>

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

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
United States	\$ 37,444	\$ 36,095	\$ 77,326	\$ 74,012
International	1,300	1,402	3,403	3,205
Total revenues	<u>\$ 38,744</u>	<u>\$ 37,497</u>	<u>\$ 80,729</u>	<u>\$ 77,217</u>

Contract balances

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

	September 24, 2023	March 26, 2023
Deferred franchise fees (a)	\$ 1,416	\$ 1,608
Deferred revenues, which are included in “Accrued expenses and other current liabilities” (b)	\$ 742	\$ 1,406

- (a) Deferred franchise fees of \$336 and \$1,080 as of September 24, 2023 and \$336 and \$1,272 as of March 26, 2023 are included in Deferred franchise fees – current and long term, respectively.
- (b) Includes \$242 of deferred license royalties and \$500 of deferred advertising fund revenue as of September 24, 2023 and \$906 of deferred license royalties and \$500 of deferred advertising fund revenue as of March 26, 2023.

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

	Twenty-six weeks ended	
	September 24, 2023	September 25, 2022
Deferred franchise fees at beginning of period	\$ 1,608	\$ 2,097
New deferrals due to cash received and other	46	77
Revenue recognized during the period	(238)	(336)
Deferred franchise fees at end of period	<u>\$ 1,416</u>	<u>\$ 1,838</u>

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

	Twenty-six weeks ended	
	September 24, 2023	September 25, 2022
Deferred revenues at beginning of period	\$ 1,406	\$ 876
New deferrals due to cash received and other	500	-
Revenue recognized during the period	(1,164)	(676)
Deferred revenues at end of period	<u>\$ 742</u>	<u>\$ 200</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):

	Estimate for fiscal year
2024 (a)	\$ 170
2025	330
2026	298
2027	185
2028	93
Thereafter	340
Total	<u>\$ 1,416</u>

- (a) Represents franchise fees expected to be recognized for the remainder of the 2024 fiscal year, which includes international development fees expected to be recognized over the duration of one year or less. Amount does not include \$238 of franchise fee revenue recognized for the twenty-six weeks ended September 24, 2023.

We have applied the optional exemption, as provided for under ASC 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 income per common share is calculated by dividing income by the weighted average number of common shares outstanding and excludes any dilutive effect of share-based awards. Diluted income per common share gives effect to all potentially dilutive common shares that were outstanding during the period. Dilutive common shares used in the computation of diluted income per common share result from the assumed exercise of stock options 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 and twenty-six week periods ended September 24, 2023 and September 25, 2022, respectively.

### Thirteen weeks

	Net Income		Number of Shares		Net Income Per Share	
	2023	2022	2023	2022	2023	2022
	(in thousands)		(in thousands)			
<b>Basic EPS</b>						
Basic calculation	\$ 5,711	\$ 5,958	4,080	4,083	\$ 1.40	\$ 1.46
Effect of dilutive share-based awards	-	-	12	-	-	-
<b>Diluted EPS</b>						
Diluted calculation	\$ 5,711	\$ 5,958	4,092	4,083	\$ 1.40	\$ 1.46

### Twenty-six weeks

	Net Income		Number of Shares		Net Income Per Share	
	2023	2022	2023	2022	2023	2022
	(in thousands)		(in thousands)			
<b>Basic EPS</b>						
Basic calculation	\$ 13,099	\$ 13,095	4,080	4,098	\$ 3.21	\$ 3.20
Effect of dilutive share-based awards	-	-	10	-	(.01)	-
<b>Diluted EPS</b>						
Diluted calculation	\$ 13,099	\$ 13,095	4,090	4,098	\$ 3.20	\$ 3.20

Options to purchase 10,000 shares of common stock in the thirteen and twenty-six week periods ended September 24, 2023 were excluded in the computation of diluted earnings per share because the exercise price exceeded the average market price of common shares during these periods.

Options to purchase 20,000 shares of common stock in the thirteen and twenty-six week periods ended September 25, 2022 were excluded in the computation of diluted earnings per share because the exercise price exceeded the average market price of common shares during these periods.

### 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 September 24, 2023 were \$15,075. The Company did not have any cash equivalents at March 26, 2023. The Company's cash balances principally consist of cash in bank and money market accounts.

At September 24, 2023 and March 26, 2023, 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

The face value and fair value of long-term debt as of September 24, 2023 and March 26, 2023 were as follows (in thousands):

	September 24, 2023		March 26, 2023	
	Face value	Fair value	Face value	Fair value
Long-term debt	\$ 80,000	\$ 79,048	\$ 80,000	\$ 80,080

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 maturity of the instruments.

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 September 24, 2023, 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):

	September 24, 2023	March 26, 2023
Branded product sales	\$ 11,634	\$ 11,106
Franchise and license royalties	3,238	3,817
Other	1,223	623
	16,095	15,546
Less: allowance for credit losses	(333)	(480)
Accounts and other receivables, net	\$ 15,762	\$ 15,066

The recently adopted CECL guidance requires companies to use a current expected credit loss model that immediately recognizes an estimate of credit losses expected to occur over the life of the consolidated financial instruments, including trade receivables. 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.

Under the CECL guidance, the Company applies the credit loss methodology by pooling financial assets based on similar risk characteristics and delinquency status under an aging method at the measurement date. The risk characteristics the Company generally reviews when analyzing its trade accounts receivable pools include the type of receivable (for example, franchise receivable versus license receivable), payment terms, the Company's previous loss history, current and future economic conditions and the length of time accounts receivables are past due. For those trade accounts receivable that no longer share similar risk characteristics with its pool and potential loss is evident, a specific reserve is recorded.

For pooled trade account receivables, the Company develops its allowance for credit losses by applying a historical loss rate to each pool based on historical account write-off trends. The Company believes that the past five years provide a reasonable representation of the Company's operations and performance through various business cycles, both favorable and unfavorable. The allowance for credit losses is then adjusted for current macroeconomic factors, including the effects of inflation and reasonable and supportable forecasts of future economic conditions. 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 twenty-six week period ended September 24, 2023 and the fiscal year ended March 26, 2023 are as follows (in thousands):

	<u>September 24, 2023</u>	<u>March 26, 2023</u>
Beginning balance	\$ 480	\$ 258
Cumulative effect of adoption of ASU 2016-13	252	-
Bad debt expense	55	457
Write offs and other	(454)	(235)
Ending balance	<u>\$ 333</u>	<u>\$ 480</u>

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

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

	<u>September 24, 2023</u>	<u>March 26, 2023</u>
Income taxes	\$ -	\$ 146
Real estate taxes	92	78
Insurance	110	389
Marketing	266	814
Other	378	468
Total prepaid expenses and other current assets	<u>\$ 846</u>	<u>\$ 1,895</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 five 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 and twenty-six week periods ended September 24, 2023 that would indicate that the carrying amount of the Company's intangible asset may be impaired as of September 24, 2023.

#### 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 and twenty-six week periods ended September 24, 2023 that would indicate that the carrying amount of the Company's long-lived assets may be impaired as of September 24, 2023.

## NOTE K – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	September 24, 2023	March 26, 2023
Payroll and other benefits	\$ 1,768	\$ 3,410
Accrued rebates	739	698
Rent and occupancy costs	169	70
Deferred revenue	742	1,406
Interest	2,135	2,143
Professional fees	167	99
Sales, use and other taxes	194	76
Corporate income taxes	467	-
Other	257	228
Total accrued expenses and other current liabilities	<u>\$ 6,638</u>	<u>\$ 8,130</u>

## NOTE L – INCOME TAXES

The income tax provisions for the thirteen weeks ended September 24, 2023 and September 25, 2022 reflect effective tax rates of 27.4% and 26.3%, respectively. The effective income tax rate for the thirteen weeks ended September 24, 2023 reflected \$2,153 of income tax expense recorded on \$7,864 of pre-tax income. The effective income tax rate for the thirteen weeks ended September 25, 2022 reflected \$2,127 of income tax expense recorded on \$8,085 of pre-tax income.

The income tax provisions for the twenty-six weeks ended September 24, 2023 and September 25, 2022 reflect effective tax rates of 27.2% and 27.1%, respectively. The effective income tax rate for the twenty-six weeks ended September 24, 2023 reflected \$4,897 of income tax expense recorded on \$17,996 of pre-tax income. The effective income tax rate for the twenty-six weeks ended September 25, 2022 reflected \$4,870 of income tax expense recorded on \$17,965 of pre-tax income.

The effective income tax rates for the thirteen and twenty-six week periods ended September 24, 2023 and September 25, 2022 were higher than the United States statutory income tax rate primarily due to state and local taxes. The effective tax rate for the thirteen week period ended September 24, 2023 includes a discrete adjustment of 0.8%. There were no discrete adjustments for the thirteen week period ended September 25, 2022.

The amount of unrecognized tax benefits included in Other liabilities at September 24, 2023 and March 26, 2023 was \$459 and \$432, respectively, all of which would impact the Company's effective rate, if recognized. As of September 24, 2023 and March 26, 2023, the Company had approximately \$335 and \$305, respectively, accrued for the payment of 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 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, sausages, 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 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		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
<b>Revenues</b>				
Branded Product Program	\$ 23,352	\$ 22,030	\$ 48,522	\$ 45,201
Product licensing	8,339	8,413	19,997	19,727
Restaurant operations	6,484	6,470	11,217	11,286
Corporate (1)	569	584	993	1,003
Total revenues	<u>\$ 38,744</u>	<u>\$ 37,497</u>	<u>\$ 80,729</u>	<u>\$ 77,217</u>
<b>Income from operations</b>				
Branded Product Program	\$ 1,387	\$ 2,485	\$ 3,348	\$ 4,552
Product licensing	8,293	8,367	19,906	19,636
Restaurant operations	1,639	1,476	2,308	2,117
Corporate	(2,215)	(2,414)	(4,995)	(4,611)
Income from operations	<u>\$ 9,104</u>	<u>\$ 9,914</u>	<u>\$ 20,567</u>	<u>\$ 21,694</u>
Interest expense	(1,413)	(1,943)	(2,827)	(3,887)
Interest income	150	80	212	102
Other income, net	23	34	44	56
Income before provision for income taxes	<u>\$ 7,864</u>	<u>\$ 8,085</u>	<u>\$ 17,996</u>	<u>\$ 17,965</u>

(1) Represents advertising fund revenue

#### NOTE N – SHARE-BASED COMPENSATION

Total share-based compensation during the thirteen and twenty-six week periods ended September 24, 2023 and September 25, 2022 was \$182 and \$8, and \$359 and \$16, respectively. Total share-based compensation is included in general and administrative expenses in our accompanying Consolidated Statements of Earnings. As of September 24, 2023, there was \$3,035 of unamortized compensation expense related to share-based awards. We expect to recognize this expense over approximately forty-six months, which represents the weighted average remaining requisite service periods for such awards.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Stock options	\$ 13	\$ 8	\$ 21	\$ 16
Restricted stock units	169	-	338	-
Total compensation cost	<u>\$ 182</u>	<u>\$ 8</u>	<u>\$ 359</u>	<u>\$ 16</u>

### Stock options

During the twenty-six week period ended September 24, 2023, the Company granted options to purchase 10,000 shares at an exercise price of \$78.00 per share, all of which expire five years from the date of grant. All such options vest ratably over a four-year period commencing August 11, 2023.

The weighted average option fair value, as determined using the Black-Scholes option valuation model, and the assumptions used to estimate these values for stock options granted during the twenty-six week period ended September 24, 2023 are as follows:

Weighted average option fair values	\$	16.23
Expected life (years)		4.4
Interest rate		4.31%
Volatility		24.29%
Dividend yield		2.56%

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

Transactions with respect to stock options for the twenty-six weeks ended September 24, 2023 are as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Options outstanding at March 26, 2023	20,000	\$ 79.20	1.92	\$ 40
Granted	10,000	\$ 78.00	4.88	-
Expired	(10,000)	\$ 89.90	-	-
Options outstanding at September 24, 2023	<u>20,000</u>	<u>\$ 73.25</u>	<u>3.88</u>	<u>\$ 27</u>
Options exercisable at September 24, 2023	<u>5,000</u>	<u>\$ 68.50</u>	<u>2.88</u>	<u>\$ 14</u>

### Restricted stock units

Transactions with respect to restricted stock units for the twenty-six weeks ended September 24, 2023 are as follows:

	<u>Shares</u>	<u>Weighted Average Grant-date Fair value Per share</u>
Unvested restricted stock units at March 26, 2023	50,000	\$ 67.59
Granted	-	\$ -
Vested	-	\$ -
Unvested restricted stock units at September 24, 2023	<u>50,000</u>	<u>\$ 67.59</u>

## NOTE O – STOCKHOLDERS’ EQUITY

### 1. Dividends

Effective June 8, 2023, the Company’s Board of Directors (the “Board”) declared its first quarterly cash dividend of \$0.50 per share for fiscal 2024, which was paid on June 28, 2023 to stockholders of record as of the close of business on June 20, 2023.

Effective August 3, 2023, the Board declared its second quarterly cash dividend of \$0.50 per share for fiscal 2024, which was paid on September 1, 2023 to stockholders of record as of the close of business on August 21, 2023.

Effective November 2, 2023, the Board declared its third quarterly cash dividend of \$0.50 per share for fiscal 2024 payable on December 1, 2023 to stockholders of record as of the close of business on November 20, 2023.

Our ability to pay future dividends is limited by the terms of the Indenture with U.S. Bank Trust Company, National Association, as trustee and collateral trustee. In addition to the terms of the Indenture, the declaration and payment of any cash dividends in the future is 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 September 24, 2023, Nathan’s had repurchased 1,101,884 shares at a cost of \$39,000 under the sixth stock repurchase plan. At September 24, 2023 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):

	<b>September 24, 2023</b>	March 26, 2023
6.625% Senior Secured Notes due 2025	\$ 80,000	\$ 80,000
Less: unamortized debt issuance costs	(768)	(952)
Long-term debt, net	<u>\$ 79,232</u>	<u>\$ 79,048</u>

## 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 and twenty-six week periods ended September 24, 2023 and September 25, 2022 were as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	<b>September 24, 2023</b>	September 25, 2022	<b>September 24, 2023</b>	September 25, 2022
Operating lease cost	\$ 423	\$ 408	\$ 849	\$ 836
Variable lease cost	499	482	887	850
Less: Sublease income, net	(23)	(20)	(44)	(42)
Total net lease cost	<u>\$ 899</u>	<u>\$ 870</u>	<u>\$ 1,692</u>	<u>\$ 1,644</u>

The following table presents the components of the net lease cost on the Consolidated Statements of Earnings for the thirteen and twenty-six week periods ended September 24, 2023 and September 25, 2022 (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Restaurant operating expenses	\$ 732	\$ 712	\$ 1,347	\$ 1,319
General and administrative expenses	190	178	389	367
Less: Other income, net	(23)	(20)	(44)	(42)
<b>Total net lease cost</b>	<b>\$ 899</b>	<b>\$ 870</b>	<b>\$ 1,692</b>	<b>\$ 1,644</b>

Cash paid for amounts included in the measurement of lease liabilities for the thirteen and twenty-six week periods ended September 24, 2023 and September 25, 2022 were as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Operating cash flows from operating leases	\$ 392	\$ 370	\$ 785	\$ 734

The weighted average remaining lease term and weighted average discount rate for operating leases as of September 24, 2023 were as follows:

Weighted average remaining lease term (years):	4.9
Weighted average discount rate:	8.498%

Future lease commitments to be paid and received by the Company as of September 24, 2023 were as follows (in thousands):

	Payments Operating Leases	Receipts Subleases	Net Leases
<b>Fiscal year:</b>			
2024 (a)	\$ 773	\$ 84	\$ 689
2025	1,884	274	1,610
2026	1,919	278	1,641
2027	1,928	281	1,647
2028	1,778	129	1,649
Thereafter	602	495	107
Total lease commitments	\$ 8,884	\$ 1,541	\$ 7,343
Less: Amount representing interest	(1,601)		
Present value of lease liabilities (b)	<u>\$ 7,283</u>		

- (a) Represents future lease commitments to be paid and received by the Company for the remainder of the 2024 fiscal year. Amount does not include \$895 of lease commitments paid and received by the Company for the twenty-six week period ended September 24, 2023.
- (b) The present value of minimum operating lease payments of \$1,875 and \$5,408 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 net lease income for the thirteen and twenty-six week periods ended September 24, 2023 and September 25, 2022 were as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Operating lease income, net	<u>\$ 23</u>	<u>\$ 20</u>	<u>\$ 44</u>	<u>\$ 42</u>

**NOTE R – COMMITMENTS AND CONTINGENCIES**

1. Contingencies

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 – SUBSEQUENT EVENTS**

On October 30, 2023, the Compensation Committee of the Board approved a discretionary cash bonus payment of \$500 to Howard M. Lorber, Executive Chairman of the Board, which will be paid on or before November 17, 2023.

The Company evaluated subsequent events through the date the Consolidated Financial Statements were issued and filed with the SEC. There were no other subsequent events that require recognition or disclosure.

## 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 recent 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 the 2025 Notes (as defined below), 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 26, 2023, 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 and other meat products to retail customers through supermarkets or grocery-type retailers 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 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 September 24, 2023, our restaurant system, excluding virtual kitchens, consisted of 235 locations, including 117 Branded Menu Program locations, and four Company-owned restaurants (including one seasonal unit), located in 17 states, and 13 foreign countries (including 2 Branded Menu Program locations in Ukraine which are temporarily closed as a result of the Russia-Ukraine conflict.) Our virtual kitchens in operation consisted of 262 locations located in 20 states and six foreign countries.

At September 25, 2022, our restaurant system, excluding virtual kitchens, consisted of 234 locations, including 119 Branded Menu Program locations, and four Company-owned restaurants (including one seasonal unit), located in 17 states, and 12 foreign countries (including 2 Branded Menu Program locations in Ukraine which are temporarily closed as a result of the Russia-Ukraine conflict.) Our virtual kitchens in operation consisted of 229 locations located in 18 states and four 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 26, 2023, 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 the special \$5.00 cash dividend and used the remaining proceeds for general corporate purposes, including working capital.

On January 26, 2022, the Company redeemed \$40,000,000 in aggregate principal amount of its 2025 Notes. Subsequently, on March 21, 2023, the Company redeemed an additional \$30,000,000 in aggregate principal amount of its 2025 Notes. \$80,000,000 of the 2025 Notes were outstanding as of September 24, 2023. On May 1, 2023 and November 1, 2023, the Company paid its semi-annual interest payments for fiscal 2024.

Our future results may be impacted by our interest obligations under the 2025 Notes. As a result of the outstanding balance of the 2025 Notes, the Company expects to incur annual interest expense of \$5,300,000 and annual amortization costs of approximately \$369,000.

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**

### ***Inflationary Factors***

The Company continues to experience rising labor costs, as well as higher commodity prices, including beef and beef trimmings. This trend may continue throughout the remainder of fiscal year 2024. 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 plans 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, 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 26, 2023, 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 revenue recognition; leases; impairment of intangible assets; impairment of long-lived assets; and income taxes (including uncertain tax positions). As discussed in Note B, the Company adopted ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*,” effective March 27, 2023. There have been no other significant changes to the Company’s accounting policies subsequent to March 26, 2023.

## Adoption of New Accounting Standard

Please refer to Note B of the preceding consolidated financial statements for our discussion of the Adoption of the New Accounting Standard.

## 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 (i) the gain on disposal of property and equipment and (ii) 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		Twenty-six weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
	(unaudited)		(unaudited)	
Net income	\$ 5,711	\$ 5,958	\$ 13,099	\$ 13,095
Interest expense	1,413	1,943	2,827	3,887
Provision for income taxes	2,153	2,127	4,897	4,870
Depreciation and amortization	315	301	628	534
EBITDA	<u>9,592</u>	<u>10,329</u>	<u>21,451</u>	<u>22,386</u>
Gain on disposal of property and equipment	-	(14)	-	(14)
Share-based compensation	182	8	359	16
Adjusted EBITDA	<u>\$ 9,774</u>	<u>\$ 10,323</u>	<u>\$ 21,810</u>	<u>\$ 22,388</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 retail licensing program generally follow similar season fluctuations, although not to the same degree. 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 and twenty-six weeks ended September 24, 2023 are not necessarily indicative of those for a full fiscal year.

## Results of Operations

### Thirteen weeks ended September 24, 2023 compared to thirteen weeks ended September 25, 2022

#### Revenues

Total revenues increased by approximately 3% to \$38,744,000 for the thirteen weeks ended September 24, 2023 ("second quarter fiscal 2024") as compared to \$37,497,000 for the thirteen weeks ended September 25, 2022 ("second quarter fiscal 2023").

Total sales increased by approximately 5% to \$28,545,000 for the second quarter fiscal 2024 as compared to \$27,301,000 for the second quarter fiscal 2023 which included foodservice sales from the Branded Product Program increasing by 6% to \$23,352,000 for the second quarter fiscal 2024 as compared to sales of \$22,030,000 for the second quarter fiscal 2023. During the second quarter fiscal 2024, the volume of hot dogs sold decreased by approximately 2% as compared to the second quarter fiscal 2023. Our average selling prices increased by approximately 9% as compared to the second quarter fiscal 2023. Total Company-owned restaurant sales decreased by approximately 1% to \$5,193,000 during the second quarter fiscal 2024 as compared to \$5,271,000 during the second quarter fiscal 2023. Sales were impacted by reduced traffic at our Coney Island locations as a result of unfavorable weather conditions during the summer season.

License royalties decreased by approximately 1% to \$8,339,000 in the second quarter fiscal 2024 as compared to \$8,413,000 in the second quarter fiscal 2023. Total royalties earned on sales of hot dogs from our license agreement with Smithfield Foods, Inc. at retail and foodservice, decreased 2% to \$7,507,000 for the second quarter fiscal 2024 as compared to \$7,655,000 in the second quarter fiscal 2023. The decrease is due to a 7% decrease in retail volume, which was partially offset by a 5% increase in average net selling price as compared to the second quarter fiscal 2023. The foodservice business earned higher royalties of \$56,000 as compared to the second quarter fiscal 2023. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$74,000 during the second quarter fiscal 2024 as compared to the second quarter fiscal 2023 primarily due to higher royalties earned on sales of french fries, onion rings and pickles.

Franchise fees and royalties were \$1,291,000 in the second quarter fiscal 2024 as compared to \$1,199,000 in the second quarter fiscal 2023. Total royalties were \$1,148,000 in the second quarter fiscal 2024 as compared to \$1,055,000 in the second quarter fiscal 2023. Royalties earned under the Branded Menu Program were \$272,000 in the second quarter fiscal 2024 as compared to \$178,000 in the second quarter fiscal 2023. 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 \$18,000 in the second quarter fiscal 2024 as compared to \$37,000 in the second quarter fiscal 2023. Traditional franchise royalties were \$858,000 in the second quarter fiscal 2024 as compared to \$840,000 in the second quarter fiscal 2023. Franchise restaurant sales increased to \$19,171,000 in the second quarter fiscal 2024 as compared to \$18,595,000 in the second quarter fiscal 2023 primarily due to higher sales at airport locations; highway travel plazas; shopping malls and movie theaters. Comparable domestic franchise sales (consisting of 63 Nathan's outlets, excluding sales under the Branded Menu Program) were \$15,627,000 in the second quarter fiscal 2024 as compared to \$15,353,000 in the second quarter fiscal 2023.

At September 24, 2023, 235 franchised locations, including domestic, international and Branded Menu Program units were operating as compared to 234 franchised locations, including domestic, international and Branded Menu Program units at September 25, 2022. Total franchise fee income was \$143,000 in the second quarter fiscal 2024 as compared to \$144,000 in the second quarter fiscal 2023. Domestic franchise fee income was \$28,000 in the second quarter fiscal 2024 and the second quarter fiscal 2023. International franchise fee income was \$60,000 in the second quarter fiscal 2024 as compared to \$61,000 during the second quarter fiscal 2023.

We recognized \$55,000 in forfeited fees in the second quarter fiscal 2024 and the second quarter fiscal 2023. During the second quarter fiscal 2024, seven franchise locations opened and seven franchise locations closed. Additionally, seven virtual kitchens opened. During the second quarter fiscal 2023, one franchise location opened and five franchise locations closed. Additionally, forty-three virtual kitchens opened.

Advertising fund revenue, after eliminating Company contributions, was \$569,000 during the second quarter fiscal 2024 as compared to \$584,000 during the second quarter fiscal 2023.

### **Costs and Expenses**

Overall, our cost of sales increased by approximately 10% to \$24,187,000 in the second quarter fiscal 2024 as compared to \$21,898,000 in the second quarter fiscal 2023. Our gross profit (representing the difference between sales and cost of sales) decreased to \$4,358,000 or 15% of sales during the second quarter fiscal 2024 as compared to \$5,403,000 or 20% of sales during the second quarter fiscal 2023.

Cost of sales in the Branded Product Program increased by 13% to \$21,442,000 in the second quarter fiscal 2024 as compared to \$18,975,000 in the second quarter fiscal 2023, primarily due to a 17% increase in the average cost per pound of our hot dogs, which was partially offset by the 2% decline in the volume of hot dogs sold as discussed above. We continue to experience pricing pressures on commodities, including beef and beef trimmings. We did not make any purchase commitments of beef during the second quarter fiscal 2024 or the second quarter fiscal 2023. 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 second quarter fiscal 2024 was \$2,745,000 or 53% of restaurant sales as compared to \$2,923,000 or 55% of restaurant sales during the second quarter fiscal 2023. The decrease in cost of sales during the fiscal 2024 period was primarily due to the 1% decrease in sales discussed above. Food and paper costs as a percentage of Company-owned restaurant sales were 27.6%, down from 28.3% in the comparable period of the prior year. Labor and related expenses as a percentage of Company-owned restaurant sales were 25.3%, down from 27.2% in the comparable period of the prior year due to tighter management and staffing stabilization.

Restaurant operating expenses were \$1,340,000 in the second quarter fiscal 2024 as compared to \$1,253,000 in the second quarter fiscal 2023. We incurred higher occupancy expenses of \$17,000, higher contract maintenance costs of \$12,000 and higher credit card and bank fees of \$40,000.

Depreciation and amortization, which primarily consists of the depreciation of fixed assets, including leasehold improvements and equipment, was \$315,000 in the second quarter fiscal 2024 as compared to \$301,000 in the second quarter fiscal 2023.

General and administrative expenses decreased by \$143,000 or 4% to \$3,229,000 in the second quarter fiscal 2024 as compared to \$3,372,000 in the second quarter fiscal 2023. The decrease in general and administrative expenses was primarily attributable to a reduction in incentive compensation expenses of \$233,000 and lower marketing and trade show expenses of \$57,000, which were partially offset by higher share-based compensation expense of \$174,000.

Advertising fund expense, after eliminating Company contributions, was \$569,000 during the second quarter fiscal 2024 as compared to \$759,000 in the second quarter fiscal 2023.

### **Other Items**

Interest expense of \$1,413,000 in the second quarter fiscal 2024 represented interest expense of \$1,321,000 on the 2025 Notes and amortization of debt issuance costs of \$92,000.

Interest expense of \$1,943,000 in the second quarter fiscal 2023 represented interest expense of \$1,816,000 on the 2025 Notes and amortization of debt issuance costs of \$127,000.

The reduction in interest expense of \$530,000 is due to the reduction in the outstanding balance of the Company's 2025 Notes as a result of the \$30,000,000 partial redemption completed in March 2023.

Interest income of \$150,000 in the second quarter fiscal 2024 represented amounts earned by the Company on its certificates of deposit, as well as its interest bearing bank and money market accounts, as compared to \$80,000 in the fiscal 2023 period.

Other income, net was \$23,000 and \$34,000 in the second quarter fiscal 2024 and the second quarter fiscal 2023, respectively, which primarily relates to sublease income from a franchised restaurant.

### **Provision for Income Taxes**

The effective income tax rate for the second quarter fiscal 2024 was 27.4% compared to 26.3% in the second quarter fiscal 2023. The effective income tax rate for the second quarter fiscal 2024 reflected income tax expense of \$2,153,000 recorded on \$7,864,000 of pre-tax income. The effective income tax rate for the second quarter fiscal 2023 reflected income tax expense of \$2,127,000 recorded on \$8,085,000 of pre-tax income. The effective tax rates are higher than the U.S. Federal statutory rates primarily due to state and local taxes.

The effective tax rate for the second quarter fiscal 2024 includes a discrete adjustment of 0.8%. There were no discrete adjustments for the second quarter fiscal 2023.

The amount of unrecognized tax benefits at September 24, 2023 was \$459,000 all of which would impact the Company's effective tax rate, if recognized. As of September 24, 2023, the Company had approximately \$335,000 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 \$19,000 during the fiscal year ending March 31, 2024 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.

### **Results of Operations**

#### **Twenty-six weeks ended September 24, 2023 compared to twenty-six weeks ended September 25, 2022**

#### **Revenues**

Total revenues increased by approximately 5% to \$80,729,000 for the twenty-six weeks ended September 24, 2023 ("fiscal 2024 period") as compared to \$77,217,000 for the twenty-six weeks ended September 25, 2022 ("fiscal 2023 period").

Total sales increased by approximately 6% to \$57,373,000 for the fiscal 2024 period as compared to \$54,195,000 for the fiscal 2023 period which included foodservice sales from the Branded Product Program increasing by 7% to \$48,522,000 for the fiscal 2024 period as compared to sales of \$45,201,000 for the fiscal 2023 period. During the fiscal 2024 period, the volume of hot dogs sold in the Branded Product Program increased by approximately 0.4% as compared to the fiscal 2023 period. Our average selling prices, which are partially correlated to the beef markets, increased by approximately 7% as compared to the fiscal 2023 period. Total Company-owned restaurant sales decreased by 2% to \$8,851,000 during the fiscal 2024 period as compared to \$8,994,000 during the fiscal 2023 period. Sales were impacted by reduced traffic at our Coney Island locations as a result of unfavorable weather conditions during the summer season.

License royalties increased by approximately 1% to \$19,997,000 in the fiscal 2024 period as compared to \$19,727,000 in the fiscal 2023 period. Total royalties earned on sales of hot dogs from our license agreement with Smithfield Foods, Inc. at retail and foodservice, increased 1% to \$18,303,000 for the fiscal 2024 period as compared to \$18,105,000 in the fiscal 2023 period. The increase is due to a 2% increase in average net selling price as compared to the fiscal 2023 period, which was partially offset by a 1% decline in retail volume. The foodservice business earned higher royalties of \$111,000 as compared to the fiscal 2023 period. Royalties earned from all other licensing agreements for the manufacture and sale of Nathan's products increased by \$72,000 during the fiscal 2024 period as compared to the fiscal 2023 period primarily due to higher royalties earned on sales of french fries, onion rings, cocktail franks and mozzarella sticks.

Franchise fees and royalties were \$2,366,000 in the fiscal 2024 period as compared to \$2,292,000 in the fiscal 2023 period. Total royalties were \$2,128,000 in the fiscal 2024 period as compared to \$1,956,000 in the fiscal 2023 period. Royalties earned under the Branded Menu Program were \$453,000 in the fiscal 2024 period as compared to \$317,000 in the fiscal 2023 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 \$50,000 in the fiscal 2024 period as compared to \$82,000 in the fiscal 2023 period. Traditional franchise royalties were \$1,625,000 in the fiscal 2024 period as compared to \$1,557,000 in the fiscal 2023 period. Franchise restaurant sales increased to \$36,433,000 in the fiscal 2024 period as compared to \$34,541,000 in the fiscal 2023 period primarily due to higher sales at airport locations; highway travel plazas; shopping malls and movie theaters. Comparable domestic franchise sales (consisting of 64 Nathan's outlets, excluding sales under the Branded Menu Program) were \$30,166,000 in the fiscal 2024 period as compared to \$28,431,000 in the fiscal 2023 period.

At September 24, 2023, 235 franchised locations, including domestic, international and Branded Menu Program units were operating as compared to 234 franchised locations, including domestic, international and Branded Menu Program units at September 25, 2022. Total franchise fee income was \$238,000 in the fiscal 2024 period as compared to \$336,000 in the fiscal 2023 period. Domestic franchise fee income was \$55,000 in the fiscal 2024 period as compared to \$57,000 in the fiscal 2023 period. International franchise fee income was \$120,000 in the fiscal 2024 period as compared to \$130,000 during the fiscal 2023 period.

We recognized \$63,000 and \$149,000 in forfeited fees in the fiscal 2024 period and fiscal 2023 period, respectively. During the fiscal 2024 period, fourteen franchise locations opened and eleven franchise locations closed. Additionally, eleven virtual kitchens opened. During the fiscal 2023 period, four franchise locations opened and nine franchise locations closed. Additionally, fifty-eight virtual kitchens opened.

Advertising fund revenue, after eliminating Company contributions, was \$993,000 during the fiscal 2024 period as compared to \$1,003,000 during the fiscal 2023 period.

### **Costs and Expenses**

Overall, our cost of sales increased by approximately 10% to \$48,871,000 in the fiscal 2024 period as compared to \$44,565,000 in the fiscal 2023 period. Our gross profit (representing the difference between sales and cost of sales) decreased to \$8,502,000 or 15% of sales during the fiscal 2024 period as compared to \$9,630,000 or 18% of sales during the fiscal 2023 period.

Cost of sales in the Branded Product Program increased by 12% to \$44,010,000 during the fiscal 2024 period as compared to \$39,375,000 during the fiscal 2023 period, primarily due to a 12% increase in the average cost per pound of our hot dogs. We continue to experience pricing pressures on commodities, including beef and beef trimmings. We did not make any purchase commitments of beef during the fiscal 2024 and 2023 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 2024 period was \$4,861,000 or 55% of restaurant sales, as compared to \$5,190,000 or 58% of restaurant sales in the fiscal 2023 period. The decrease in cost of sales during the fiscal 2024 period was primarily due to the 2% decrease in sales discussed above. Food and paper costs as a percentage of Company-owned restaurant sales were 27.8%, down from 28.4% in the comparable period of the prior year. Labor and related expenses as a percentage of Company-owned restaurant sales were 27.1%, down from 29.3% in the comparable period of the prior year due to tighter management and staffing stabilization.

Restaurant operating expenses were \$2,383,000 in the fiscal 2024 period as compared to \$2,285,000 in the fiscal 2023 period. We incurred higher occupancy expenses of \$25,000, higher contract maintenance costs of \$18,000 and higher credit card and bank fees of \$64,000.

Depreciation and amortization, which primarily consists of the depreciation of fixed assets, including leasehold improvements and equipment, was \$628,000 in the fiscal 2024 period as compared to \$534,000 in the fiscal 2023 period.

General and administrative expenses increased by \$326,000 or 5% to \$7,287,000 in the fiscal 2024 period as compared to \$6,961,000 in the fiscal 2023 period. The increase in general and administrative expenses was primarily attributable to higher share-based compensation expense of \$343,000 and higher professional fees of \$102,000, offset, in part, by a reduction in incentive compensation expenses of \$104,000.

Advertising fund expense, after eliminating Company contributions, was \$993,000 during the fiscal 2024 period as compared to \$1,178,000 in the fiscal 2023 period.

### **Other Items**

Interest expense of \$2,827,000 in the fiscal 2024 period represented interest expense of \$2,643,000 on the 2025 Notes and amortization of debt issuance costs of \$184,000.

Interest expense of \$3,887,000 in the fiscal 2023 period represented interest expense of \$3,633,000 on the 2025 Notes and amortization of debt issuance costs of \$254,000.

The reduction in interest expense of \$1,060,000 is due to the reduction in the outstanding balance of the Company's 2025 Notes as a result of the \$30,000,000 partial redemption completed in March 2023.

Interest income of \$212,000 in the fiscal 2024 period represented amounts earned by the Company on its certificates of deposit, as well as interest bearing bank and money market accounts, as compared to \$102,000 in the fiscal 2023 period.

Other income, net was \$44,000 and \$56,000 in the fiscal 2024 and fiscal 2023 periods, respectively, which primarily relates to sublease income from a franchised restaurant.

### **Provision for Income Taxes**

The effective income tax rate for the fiscal 2024 period was 27.2% compared to 27.1% in the fiscal 2023 period. The effective income tax rate for the fiscal 2024 period reflected income tax expense of \$4,897,000 recorded on \$17,996,000 of pre-tax income. The effective income tax rate for the fiscal 2023 period reflected income tax expense of \$4,870,000 recorded on \$17,965,000 of pre-tax income. The effective tax rates are higher than the U.S. Federal statutory rates primarily due to state and local taxes.

The amount of unrecognized tax benefits at September 24, 2023 was \$459,000 all of which would impact the Company's effective tax rate, if recognized. As of September 24, 2023, the Company had approximately \$335,000 accrued for the payment of interest and penalties in connection with unrecognized tax benefits.

Nathan's estimates that its unrecognized tax benefit excluding accrued interest and penalties could be further reduced by up to \$19,000 during the fiscal year ending March 31, 2024 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 September 24, 2023 and September 25, 2022, 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**

Cash and cash equivalents at September 24, 2023 aggregated \$36,978,000, a \$7,117,000 increase during the fiscal 2024 period as compared to cash of \$29,861,000 at March 26, 2023. Net working capital increased to \$40,047,000 from \$30,652,000 at March 26, 2023. We paid our semi-annual interest payments for fiscal 2024 of \$2,650,000 on May 1, 2023 and November 1, 2023, respectively. We paid our first and second quarter fiscal 2024 dividend payments of \$2,040,000 each on June 28, 2023 and September 1, 2023. We expect to pay our third quarter dividend on December 1, 2023.

The 2025 Notes bear interest at 6.625% per annum, payable semi-annually on May 1<sup>st</sup> and November 1<sup>st</sup> of each year. The 2025 Notes have no scheduled principal amortization payments prior to its final maturity on November 1, 2025.

Cash provided by operations of \$11,366,000 in the fiscal 2024 period is primarily attributable to net income of \$13,099,000 in addition to other non-cash operating items of \$1,077,000, offset by changes in other operating assets and liabilities of \$2,810,000. Non-cash operating expenses consist principally of depreciation and amortization of \$628,000, amortization of debt issuance costs of \$184,000, share-based compensation expense of \$359,000, and a provision for uncollectible accounts of \$55,000. In the fiscal 2024 period, accounts and other receivables increased by \$1,003,000 due primarily to higher Branded Product Program receivables of \$528,000, and higher receivables due to the Advertising Fund of \$1,032,000 which were offset, in part, by lower franchise and license royalties receivable of \$579,000. Prepaid expenses and other current assets decreased by \$1,049,000 due principally to a decrease in prepaid income taxes of \$146,000, a decrease in prepaid insurance of \$279,000 and a decrease in prepaid marketing and other expenses of \$638,000. Accounts payable, accrued expenses and other current liabilities decreased by \$2,342,000 due to a decline in accrued payroll and other benefits of \$1,642,000 resulting primarily from the payment of year-end fiscal 2023 incentive compensation; earned deferred revenue of \$664,000 and a decline in accounts payable of \$850,000 due to the timing of seasonal product purchases for our Branded Product Program and Company-owned restaurants. Additionally, there was an increase in accrued corporate taxes of \$467,000 due to the timing of estimated tax payments.

Cash used in investing activities was \$169,000 in the fiscal 2024 period primarily in connection with capital expenditures incurred for our Branded Product Program and our Coney Island restaurants.

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 September 24, 2023, Nathan's has repurchased 1,101,884 shares at a cost of \$39,000,000 under the sixth stock repurchase plan. At September 24, 2023, 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 2024 period.

As discussed above, we had cash and cash equivalents at September 24, 2023 aggregating \$36,978,000. Our Board routinely monitors and assesses its cash position and our current and potential capital requirements. The Company paid its first quarter fiscal 2024 dividend of \$2,040,000 on June 28, 2023 and its second quarter fiscal 2024 dividend of \$2,040,000 on September 1, 2023.

Effective November 2, 2023, the Company declared its third quarter dividend of \$0.50 per common share to stockholders of record as of the close of business on November 20, 2023, which is payable on December 1, 2023.

If the Company pays regular quarterly cash dividends for the remainder of fiscal 2024 at the same rate as declared in the first and second quarters of fiscal 2024, the Company's total cash requirement for dividends for all of fiscal 2024 would be approximately \$8,160,000 based on the number of shares of common stock outstanding at October 27, 2023. 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 the Indenture for the 2025 Notes. 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. We may also return capital to our stockholders through stock repurchases, subject to any restrictions in the Indenture, although there is no assurance that the Company will make any repurchases under its existing stock repurchase plan.

We may from time to time seek to redeem additional portions of our 2025 Notes, through open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on market conditions, our liquidity requirements, and other factors.

We expect that in the future we will make investments in certain existing restaurants, support the growth of the Branded Product and Branded Menu Programs, service the outstanding debt, 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. We paid our semi-annual interest payments for fiscal 2024 of \$2,650,000 on May 1, 2023 and November 1, 2023, respectively.

Management believes that available cash and cash equivalents, 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.

At September 24, 2023, 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.

Our contractual obligations primarily consist of the 2025 Notes and the related interest payments, operating leases, and employment agreement with certain executive officers. These contractual obligations impact our short-term and long-term liquidity and capital resource needs. There have been no material changes in our contractual obligations since March 26, 2023.

### **Inflationary Impact**

Inflationary pressures on labor and rising commodity prices, most notably for beef and beef trimmings, have impacted our consolidated results of operations during the fiscal 2024 period, and this trend may continue through the remainder of fiscal year 2024.

Our average cost of hot dogs during the fiscal 2024 period was approximately 12% higher than during the fiscal 2023 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 have experienced competitive pressure on labor rates as a result of the increase in the minimum hourly wage for fast food workers which increased to \$15.00 in New York state during fiscal 2022 where our Company-owned restaurants are located. Additionally, there has 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.

New York State recently passed legislation which will increase the minimum wage on January 1, 2024 to \$16.00 in New York City, Long Island and Westchester 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.

We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during the remainder of fiscal 2024. 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. Additionally, we expect to continue experiencing volatility in oil and gas prices on our distribution costs for our food products and utility costs in the Company-owned restaurants and volatile insurance costs resulting from the uncertainty of the insurance markets.

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.

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, 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 26, 2023.

### **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 September 24, 2023, Nathan's cash and cash equivalents balance aggregated \$36,978,000. Earnings on this cash would increase or decrease by approximately \$92,000 per annum for each 0.25% change in interest rates.

#### **Borrowings**

At September 24, 2023, we had \$80,000,000 of 6.625% 2025 Notes outstanding which are due in November 2025. Interest expense on these borrowings would increase or decrease by approximately \$200,000 per annum for each 0.25% change in interest rates. We currently do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings.

#### **Commodity Costs**

Inflationary pressures on labor and rising commodity prices have directly impacted our consolidated results of operations during the fiscal 2024 period, most notably within our Branded Product Program segment. This trend may continue throughout the remainder of fiscal 2024. Our average cost of hot dogs during the fiscal 2024 period was approximately 12% higher than during the fiscal 2023 period.

We are unable to predict the future cost of our hot dogs and expect to experience price volatility for our beef products during the remainder of fiscal 2024. 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 customers that are correlated to our cost of beef, thus reducing our market volatility, or have passed through permanent increases in our commodity prices to our customers that are not on formula pricing, thereby reducing the impact of long-term increases on our financial results. A short-term increase or decrease of 10% in the cost of our food and paper products for the period ended September 24, 2023 would have increased or decreased our cost of sales by approximately \$4,537,000.

#### **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 September 24, 2023 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 26, 2023, 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.**

On October 30, 2023, the Compensation Committee of the Board approved a discretionary cash bonus payment of \$500,000 to Howard M. Lorber, Executive Chairman of the Board, which will be paid on or before November 17, 2023.

Effective November 2, 2023, the Board declared its quarterly cash dividend of \$0.50 per share which is payable on December 1, 2023 to shareholders of record as of the close of business on November 20, 2023.

**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 September 24, 2023 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of 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: November 2, 2023

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

Date: November 2, 2023

By: /s/ Robert Steinberg  
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 September 24, 2023 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: November 2, 2023

/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 September 24, 2023 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: November 2, 2023

/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 September 24, 2023 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: November 2, 2023

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 September 24, 2023 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: November 2, 2023

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.