

NATHANS FAMOUS INC
Form 10-K
June 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-3189

NATHAN'S FAMOUS, INC.

(Exact name of registrant as specified in its charter)

Delaware 11-3166443

(State or

other (I.R.S.

jurisdiction of Employer

incorporation Identification

or No.)

organization)

One Jericho Plaza, Jericho, New York 11753

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(Address of principal executive offices) (Zip
Code)

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

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

<u>Common Stock – par value \$.01</u>	<u>Nasdaq Global Market</u>
(Title of class)	Name of each exchange on which registered

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter – September 29, 2013 - was approximately \$172,753,000.

As of June 6, 2014, there were outstanding 4,464,321 shares of Common Stock, par value \$.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE– The information required by Part III, Items 10, 11, 12 and 13 is incorporated by reference from the registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

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PART I

Forward-Looking Statements

Statements in this Form 10-K annual 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: economic, weather (including the three-year drought in the Midwest, along with freezing temperatures during the winter causing a reduced supply of cattle and any continued impact of Superstorm Sandy), and continued increases in the price of 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 status of our licensing and supply agreements, any issues arising from or related to the transition from SMG to John Morrell & Co. as our primary hot dog supplier and the termination in March 2014 of our previous hot dog supply agreement with SMG; the ability to continue to attract franchisees; labor costs including no material increases in the minimum wage or the impact of new union contracts; our ability to attract competent restaurant and managerial personnel; the impact of changes in the economic relationship between the United States and Russia; and the future effects of any food borne illness; such as bovine spongiform encephalopathy, BSE; as well as those risks discussed from time to time in this Form 10-K annual report for the year ended March 30, 2014, and in other documents which we file with the 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-K.

Item 1. Business.

As used herein, unless we otherwise specify, the terms “we,” “us,” “our,” “Nathan’s,” “Nathan’s Famous” and the “Company” mean Nathan’s Famous, Inc. and its subsidiaries, including NF Treacher’s Corp.

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. The Company considers itself to be in the foodservice industry, and has pursued co-branding and co-hosting initiatives. Our major channels of distribution are as follows:

Operating quick-service restaurants featuring Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, and a variety of other menu offerings, which operate under the name "Nathan's Famous," the name first used at our original Coney Island restaurant which opened in 1916.

Our Franchise program, including the Branded Menu Program. The Branded Menu Program enables qualified foodservice operators to offer a menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, proprietary toppings and other Nathan's Famous menu offerings.

The Branded Product Program which allows foodservice operators to prepare and sell Nathan's World Famous Beef Hot Dogs and certain other proprietary products outside of the realm of a traditional franchise relationship while making limited use of the Nathan's Famous trademarks.

A licensing program, which authorizes various third parties to manufacture, market and distribute various bulk and packaged products bearing the Nathan's Famous trademarks to food service customers as well as retail customers through supermarkets, club stores and other grocery-type outlets.

We also own, through our subsidiary NF Treacher's Corp., the Arthur Treacher's brand and trademarks. We use the Arthur Treacher's brand, products and trademarks as a branded seafood menu-line extension for inclusion in certain Nathan's Famous restaurants. During fiscal 2014, we entered into our first multi-unit Branded Menu Program agreement with a qualified foodservice operator for inclusion in non-Nathan's facilities and may seek to further market this program in the future.

In recent years, our primary focus has been to expand the market penetration of the Nathan's Famous brand. Specifically, we have sought to increase the number of points of brand representation and product sales throughout our various channels of distribution. In this regard, we have concentrated our efforts on:

expanding the number of foodservice locations participating in the Nathan's Famous Branded Product Program;

expanding the number of domestic franchised Nathan's Famous restaurant units through the opening of new and innovative types of locations, such as through the Branded Menu Program, as well as the development of an international franchising program;

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

operating our existing Company-owned restaurants.

As a result of our efforts to expand the Nathan's Famous brand, as of March 30, 2014:

our Nathan's Famous restaurant system consisted of 324 franchised units and five Company-owned units (including one seasonal unit) located in 28 states, the Cayman Islands, and eight foreign countries;

our Nathan's Famous Branded Product Program distributes our Nathan's World Famous Beef Hot Dogs throughout all 50 states, the District of Columbia, Puerto Rico, Canada, the US Virgin Islands, Guam and Mexico; and

Nathan's Famous packaged hot dogs and other products continued to be offered for sale within approximately 33,000 supermarkets and club stores in 45 states.

Our revenues are generated primarily from sales of products sold through our Branded Product Program and within our Company-owned restaurants, as well as from the royalties, fees and other sums we earn from our franchising and licensing activities.

We plan to expand the scope and market penetration of our Branded Product and Branded Menu Programs, further develop the restaurant operations of existing Nathan's Famous franchised and Company-owned outlets, open new Nathan's Famous franchised outlets in traditional or captive market environments and expand the Nathan's Famous retail licensing programs. We also plan to further expand our international presence through our franchise, Branded Products, Branded Menu and retail licensing programs. We may also selectively consider opening new

Company-owned restaurants.

We were incorporated in Delaware on July 10, 1992 under the name “Nathan’s Famous Holding Corporation” to act as the parent of a Delaware corporation then-known as Nathan’s Famous, Inc. On December 15, 1992, we changed our name to Nathan’s Famous, Inc., and our Delaware subsidiary changed its name to Nathan’s Famous Operating Corporation. The Delaware subsidiary was organized in October 1989 in connection with its re-incorporation in Delaware from that of a New York corporation named “Nathan’s Famous, Inc.” The New York Nathan’s was incorporated on July 10, 1925, as a successor to the sole-proprietorship that opened the first Nathan’s restaurant in Coney Island in 1916. On July 23, 1987, Equicor Group, Ltd. was merged with and into the New York Nathan’s in a “going private” transaction. The New York Nathan’s, the Delaware subsidiary and Equicor may all be deemed to be our predecessors.

Restaurant Operations

Currently, our restaurant operations are comprised predominantly of Nathan's Famous restaurants, which have been co-branded with Arthur Treacher's and Kenny Rogers Roasters menu items in 51 and 34 units, respectively.

Nathan's Famous Concept and Menu

Our Nathan's Famous concept is scalable, offering a wide range of facility designs and sizes, suitable to a vast variety of locations, featuring a core menu consisting of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages. Nathan's menu is designed to take advantage of site-specific market opportunities by adding complementary food items to the core menu. The Nathan's concept is suitable to stand-alone or can be co-branded with other nationally recognized brands.

Nathan's World Famous Beef Hot Dogs are flavored with its secret blend of spices provided by Ida Handwerker in 1916, which historically have distinguished Nathan's World Famous Beef Hot Dogs. Our hot dogs are prepared and served in accordance with procedures which have not varied significantly in more than 97 years in our Company-owned and franchised restaurants. Our signature crinkle-cut French fries, cooked in 100% trans-fat-free oil, are featured at each Nathan's restaurant. We believe the majority of sales in our Company-owned units consist of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages.

Individual Nathan's restaurants supplement their core menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries and beverages with a variety of other quality menu choices including: char-grilled hamburgers, crispy chicken tenders, crispy chicken and char-grilled chicken sandwiches, Philly cheese steaks, selected seafood items, a breakfast menu and assorted desserts and snacks. We use the Arthur Treacher's brand, products and trademarks as a branded seafood menu-line extension for inclusion in certain Nathan's Famous restaurants. While the number of supplemental menu items carried varies with the size of the unit, the specific supplemental menus chosen are tailored to local food preferences and market conditions. Each supplemental menu option consists of a number of individual items; for example, the hamburger menu may include char-grilled bacon cheeseburgers, double-burgers and super cheeseburgers. We seek to maintain the same quality standard with each of Nathan's supplemental menus as we do with Nathans' core hot dog and French fries menu. Thus, for example, hamburgers and sandwiches are prepared to order and not pre-wrapped or kept warm under lights. Nathan's also has a "Kids Meal" program in which various menu alternatives are combined with toys designed to appeal to the children's market. Soft drinks, iced tea, coffee and old fashioned lemonade and orangeade are also offered. The Company continually evaluates new products. In the course of its evaluations, the Company seeks to respond to changing consumer trends, including a trend toward perceived "healthier" products. In addition to its well-established, signature products, the Company offers for sale in many of its restaurants up to seven chicken products, six fish products, and five salad and soup products.

Nathan's restaurant designs are available in a range of sizes from 300 to 4,000 square feet. We have also developed various Nathan's carts, kiosks, mobile food trucks and modular units. Our smaller units may not have customer seating areas, although they may often share seating areas with other fast food outlets in food court settings. Other units generally provide seating for 45 to 125 customers. Carts, kiosks and modular units generally carry only the core menu. This menu is supplemented by a number of other menu selections in our other restaurant types.

We believe that Nathan's carts, kiosks, modular units and food court designs are particularly well-suited for placement in non-traditional sites, such as airports, travel plazas, stadiums, schools, convenience stores, entertainment facilities, military facilities, business and industry foodservice, within larger retail operations and other captive markets. Many of these settings may also be appropriate for our expanding Branded Menu Program or Branded Product Program. All of these units feature the Nathan's logo and utilize a contemporary design.

Arthur Treacher's Fish-n-Chips Concept and Menu

Arthur Treacher's Fish-n-Chips, Inc. was originally founded in 1969. Arthur Treacher's main product is its "Original Fish-n-Chips," consisting of fish fillets coated with a special batter prepared under a proprietary formula, deep-fried golden brown, and served with English-style chips and corn meal "hush puppies." We own all trademarks and other intellectual property relating to the Arthur Treacher's and granted a limited license to the seller for the use of the Arthur Treacher's intellectual property. Full menu restaurants emphasize the preparation and sale of batter-dipped fried seafood and chicken dishes served in a quick-service environment.

Kenny Rogers Roasters

We have the right to use the Kenny Rogers Roasters trademarks for the continued sale of the Kenny Rogers Roasters products in the Nathan's Famous and Miami Subs restaurants existing at April 23, 2008, where the Kenny Rogers products had already been introduced.

Franchise Operations

At March 30, 2014, our Nathan's franchise system, including our Branded Menu Program, consisted of 324 units operating in 28 states, the Cayman Islands, and eight foreign countries.

Our franchise system includes among its 146 franchisees such well-known companies as HMS Host, Compass Group USA, Inc., Gourmet Dining Services, Inc., Delaware North, Areas USA FLTP, LLC, CulinArt, Cinemark Theaters, National Amusements, Hershey Entertainment and Six Flags Theme Parks. We continue to market our franchising programs to larger, experienced and successful operators with the financial and business capability to develop multiple franchise units, as well as to individual owner-operators with evidence of restaurant management experience, net worth and sufficient capital.

During our fiscal year ended March 30, 2014, no single franchisee accounted for over 10% of our consolidated revenue. At March 30, 2014, HMS Host operated 17 franchised outlets, including three units at airports, 13 units within highway travel plazas and one unit within a mall. Additionally, at March 30, 2014, HMS Host operated 40 locations featuring Nathan's products pursuant to our Branded Product Program. At March 30, 2014, there were also 38 Kmart locations and 44 Brusters Real Ice Cream shops selling Nathan's products under our Branded Menu Program.

Nathan's Standard Franchise Program

Franchisees are required to execute a standard franchise agreement prior to opening each Nathan's Famous unit. Our current standard Nathan's Famous franchise agreement provides for, among other things, a one-time \$30,000 franchise fee payable upon execution of the agreement, a monthly royalty payment based on 5.5% of restaurant sales and the expenditure of up to 2.0% of restaurant sales on advertising. We may offer alternatives to the standard franchise agreement, having to do with franchise royalties, fees or advertising requirements. The initial term of the typical franchise agreement is 20 years, with a 15-year renewal option by the franchisee, subject to conditions contained in the franchise agreement.

Franchisees are approved on the basis of their business background, evidence of restaurant management experience, net worth and capital available for investment in relation to the proposed scope of the development agreement.

We provide numerous support services to our Nathan's Famous franchisees. We assist in and approve all site selections. Thereafter, we provide architectural plans suitable for restaurants of varying sizes and configurations for use in food court, in-line and free standing locations. We also assist in establishing building design specifications, reviewing construction compliance, equipping the restaurant and providing appropriate menus to coordinate with the restaurant design and location selected by the franchisee. We typically do not sell food, equipment or supplies to our standard franchisees.

We offer various management-training courses for management personnel of Company-owned and franchised Nathan's Famous restaurants. A restaurant manager from each restaurant must successfully complete our mandated management-training program. We also offer additional operations and general management training courses for all restaurant managers and other managers with supervisory responsibilities. We provide standard manuals to each franchisee covering training and operations, products and equipment and local marketing programs. We also provide ongoing advice and assistance to franchisees. We meet with our franchisees to discuss upcoming marketing events, menu development and other topics, each of which is designed to provide system-wide benefits.

Franchised restaurants are required to be operated in accordance with uniform operating standards and specifications relating to the selection, quality and preparation of menu items, signage, decor, equipment, uniforms, suppliers, maintenance and cleanliness of premises and customer service. All standards and specifications are developed by us to be applied on a system-wide basis. We regularly monitor franchisee operations and inspect restaurants. Franchisees are required to furnish us with monthly sales or operating reports which assist us in monitoring the franchisee's compliance with its franchise agreement. We make both announced and unannounced inspections of restaurants to ensure that our practices and procedures are followed. We have the right to terminate a franchise if a franchisee does not operate and maintain a restaurant in accordance with the requirements of its franchise agreement, including for non-payment of royalties, sale of unauthorized products, bankruptcy or conviction of a felony. During fiscal 2014, franchisees opened 21 new Nathan's Famous franchised units in the United States (including seven Branded Menu Program units), and 35 units internationally. In February 2014, we terminated our Development Agreement in Canada and entered into a new agreement consisting of Foodservice Programs and a Retail Participation Program. As a result of the termination, the Master Franchisee, no longer has the exclusive right to develop restaurants, either direct owned or franchised, or to operate a retail program. Instead, the Master Franchisee may act as our sales agent to prospective restaurant operators for Nathan's, in Canada.

A franchisee who desires to open multiple units in a specific territory within the United States may enter into an area development agreement under which we would expect to receive an area development fee based upon the number of proposed units which the franchisee is authorized to open. As units are opened under such agreements, a portion of such area development fee may be credited against the franchise fee payable to us, as provided in the standard franchise agreement. We may also grant exclusive territorial rights in foreign countries for the development of Nathan's units based upon compliance with a predetermined development schedule. Additionally, we may further grant exclusive manufacturing and distribution rights in foreign countries, and we expect to require an exclusivity fee to be conveyed for such exclusive rights.

Nathan's Branded Menu Program

Our Nathan's Famous Branded Menu Program enables qualified foodservice operators to offer a Nathan's Famous menu of Nathan's World Famous Beef Hot Dogs, crinkle-cut French fries, proprietary toppings, and a limited menu of other Nathan's products. Under the Branded Menu Program, the operator may use the Nathan's Famous trademarks on signage and as part of its menu boards. Additionally, the operator may use Nathan's Famous paper goods and point of sale marketing materials. Nathan's also provides architectural and design services, training and operation manuals in conjunction with this program. The operator provides Nathan's with a fee and is required to sign a 10-year agreement. Nathan's does not collect a royalty directly from the operator and the operator is not required to report sales to Nathan's as required by the standard franchise arrangements. The Branded Menu Program operator is required to purchase products from Nathan's approved distributors; we earn our royalties from such purchases.

As of March 30, 2014, the Nathan's Branded Menu Program was comprised of 134 outlets, which included 38 Nathan's Famous Branded Products within K-Marts and 44 Nathan's Famous Branded Products within Brusters Real Ice Cream shops, a premium ice cream franchisor headquartered in Western Pennsylvania with approximately 200

company-owned and franchised ice cream shops located largely in the southeast United States.

Arthur Treacher's

We are the sole owner of all rights to the Arthur Treacher's brand and the exclusive franchisor of the Arthur Treacher's restaurant system (subject to a limited license granted to PAT Franchise Systems, Inc. ("PFSI") in Indiana, Michigan, Ohio, and Pennsylvania, ("the PFSI Markets"). Accordingly, we have no obligation to pay fees or royalties to PFSI in connection with our use of the Arthur Treacher's intellectual property. Similarly, PFSI has no obligation to pay fees or royalties to us in connection with its use of the Arthur Treacher's intellectual property within the PFSI Markets. As a result of PFSI's failure to satisfy the Development Schedules for each of the territories, all future development rights have reverted to Nathan's.

As of March 30, 2014, Arthur Treacher's co-branded operations were included within 51 Nathan's Famous restaurants. Historically, our primary intention was to continue including co-branded Arthur Treacher's operations within our Nathan's Famous restaurants and explore alternative distribution channels for Arthur Treacher's products. The Branded Menu Program was extended on an opportunistic basis to include certain Arthur Treacher's products to Nathan's operators. During fiscal 2014, we entered into our first Arthur Treacher's Branded Menu Program agreement allowing a non-Nathan's restaurant to market the Arthur Treacher's products. The development agreement provides for up to 55 locations in the Rochester, New York area. The agreement requires opening fees be conveyed to Nathan's in addition to ongoing royalties based on the proprietary products purchased. The first location opened on March 9, 2014. We may seek to expand the opportunity for an Arthur Treacher's Branded Menu Program and may explore a franchising program focused on the expansion of traditional, full-menu Arthur Treacher's restaurants outside of the PFSI Markets in the future.

Company-owned Nathan's Restaurant Operations

As of March 30, 2014, we operated five Company-owned Nathan's units, including one seasonal location, in New York. Our Coney Island flagship location was rebuilt and re-opened on May 20, 2013 after suffering severe damage as a result of Superstorm Sandy on October 29, 2012. Our Yonkers location, re-opened on November 18, 2013 pursuant to a new lease, after being closed for renovation since November 2012. Our Company-owned restaurants range in size from approximately 3,500 square feet to 10,000 square feet, which are generally free-standing buildings and have seating to accommodate between 60 and 125 customers. These restaurants are open seven days a week on a year-round basis and are designed to appeal to consumers of all ages. In March 2012, we relocated our seasonal restaurant to a more prominent location on the Coney Island Boardwalk. We have entered into agreements to terminate our current lease and relocate to a smaller location within the immediate area in Oceanside, NY. These agreements are contingent upon the landlord obtaining the necessary permit and variances from the building department. We expect to operate at the current location through November 2014, and are seeking to open in the new location in March 2015. We have established high standards for food quality, cleanliness, and service at our restaurants and regularly monitor the operations of our restaurants to ensure adherence to these standards.

Three of our Company-owned restaurants have contemporary service areas, seating, signage, and general decor. Our Coney Island restaurant, which first opened in 1916, remains unique in its presentation and operations.

Our Company-owned restaurants typically carry a broader selection of menu items than our newer franchise restaurants and generally attain sales levels higher than the average of our newer franchise restaurants. The items offered at the Company-owned restaurants, other than the core menu, tend to have lower margins than the core menu. To duplicate these older units would require significantly higher levels of initial investment than current franchise restaurants and may operate at a lower sales/investment ratio. Consequently, we do not intend to replicate these older designs in any future Company-owned restaurants.

International Development

As of March 30, 2014, Nathan's Famous franchisees operated 61 units in eight foreign countries, and the Cayman Islands, having significant operations within Russia and Kuwait. During fiscal 2014 we opened 35 new units internationally, including 34 franchise locations in Russia and our second location in Mexico. Of the locations opened in Russia, 22 units were operated at the Sochi Olympics. Although some of the Sochi locations have closed, we expect that the majority of those temporary units will be relocated to permanent locations.

In February 2014, we terminated our Development Agreement in Canada and entered into a new agreement consisting of Foodservice Programs and a Retail Participation Program. As a result of the termination, the Master Franchisee, no

longer has the exclusive right to develop restaurants, either directly owned or franchised, or to operate a retail program. Instead, the Master Franchisee may act as our sales agent to prospective restaurant operators on behalf of Nathan's, and if successfully opened, would receive a fee equal to 20% of any opening fee and ongoing royalties actually earned and collected during the term. The Master Franchisee also has the exclusive right to license approved foodservice operators to participate in the Nathan's Branded Menu Program. The Master Franchisee is then obligated to pay Nathan's 35% of all initial fees, subject to a minimum, and 35% of all rebates earned. Additionally, Nathan's has licensed to John Morrell & Co. the exclusive right to distribute, market and sell consumer packages of "Nathan's Famous" hot dogs through retail channels throughout Canada. Nathan's has also agreed to pay 20% of its license royalties earned in Canada to the Master Franchisee for 15 years.

As of March 30, 2014, we have executed Master Franchise Agreements and Retail Distribution Agreements throughout Costa Rica and Lisbon, Portugal and have received non-refundable fees of \$125,000 and \$35,000, respectively. The agreement for Lisbon, also provides for the option to further development throughout Portugal. We have executed a Letter of Intent for the development of Nathan's restaurants in Singapore and Malaysia, and a separate Letter of Intent for Nigeria, for which we have received non-refundable deposits of \$45,000 and \$25,000, respectively.

We will seek to continue granting exclusive territorial rights for franchising and for the manufacturing and distribution rights in foreign countries, and we expect to require that an exclusivity fee be conveyed for these rights. We plan to develop the restaurant franchising system internationally through the use of master franchising agreements based upon individual or combined use of our existing restaurant concepts and for the distribution of Nathan’s products.

Following is a summary of our international operations for the fiscal years ended March 30, 2014, March 31, 2013 and March 25, 2012: See Item 1A-“Risk Factors.”

	March 30,	March 31,	March 25,
	2014	2013	2012
Total revenue	\$3,531,000	\$3,044,000	\$1,688,000
Gross profit (a)	\$1,765,000	\$1,193,000	\$726,000

(a) Gross profit represents the difference between revenue and cost of sales.

Location Summary

The following table shows the number of our Company-owned and franchised units in operation at March 30, 2014 and their geographical distribution:

<u>Domestic Locations</u>	Company	Franchise (1)	Total (1)
Alabama	-	2	2
Arizona	-	1	1
Arkansas	-	1	1
California	-	3	3
Connecticut	-	7	7
Florida	-	27	27
Georgia	-	22	22
Illinois	-	1	1
Kentucky	-	6	6
Maryland	-	3	3
Massachusetts	-	9	9
Michigan	-	5	5
Missouri	-	1	1
Mississippi	-	1	1
Nevada	-	13	13
New Hampshire	-	1	1
New Jersey	-	38	38
New Mexico	-	2	2
New York	5	71	76
North Carolina	-	2	2
Ohio	-	10	10
Pennsylvania	-	19	19
Rhode Island	-	2	2
South Carolina	-	7	7
Tennessee	-	2	2
Texas	-	3	3
Vermont	-	1	1
Virginia	-	3	3
Domestic Subtotal	5	263	268

<u>International Locations</u>	Company	Franchise (1)	Total (1)
Afghanistan	-	1	1
Canada	-	4	4
Cayman Islands	-	1	1

Dominican Republic	-	6	6
Egypt	-	1	1
Jamaica	-	2	2
Kuwait	-	13	13
Mexico	-	2	2
Russia	-	31	31
International Subtotal	-	61	61
Grand Total	5	324	329

(1) Amounts include 135 units operated pursuant to our Nathan's and Arthur Treacher's Branded Menu Programs. Units operating pursuant to our Branded Product Program are excluded.

Branded Product Program

Through the Branded Product Program, Nathan's provides qualified foodservice operators in a variety of venues the opportunity to capitalize on Nathan's valued brand by marketing and selling certain Nathan's Famous signature products. We believe that the program is unique in its flexibility and broad appeal. Hot dogs are offered in a variety of sizes and even come packaged with buns for vending machine use. In conjunction with the program, the operators are granted a limited use of the Nathan's Famous trademark, as well as Nathan's point of purchase materials. We earn income by selling our products either directly to the end users or to various foodservice distributors who provide the products to retailers.

As of March 30, 2014, the Branded Product Program distributed product in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, Canada and Kuwait. During fiscal 2014, the number of locations offering Nathan's branded products continued to expand. Today, Nathan's World Famous Beef Hot Dogs are being offered in national restaurant chains such as Auntie Anne's and Cheesecake Factory, national movie theater chains such as Regal Entertainment, National Amusements and Rave Theaters, national retail chains such as Kmart, casino hotels such as Foxwoods Casino in Connecticut and Turning Stone Casino in upstate New York and convenience store chains such as Hess, Sunoco and Race Trac. The Branded Products Program also continued its representation in professional sports arenas with Nathan's World Famous Beef Hot Dogs now being served in stadiums and arenas that host the New York Yankees, New York Mets, New York Islanders, Brooklyn Nets, Boston Celtics, Boston Bruins, Carolina Panthers and Charlotte Bobcats. Additionally, our products are offered in numerous other foodservice operations including cafeterias, snack bars and vending machines located in many different types of outlets and venues, including airports, highway travel plazas, colleges and universities, military installations and Veteran's Administration hospitals throughout the country.

Nathan's expects to continue to seek out and evaluate a variety of alternative means designed to maximize the value of our Branded Product Program.

Expansion Program

We expect that our retail licensing program will continue to grow centered around our new licensing program with John Morrell & Co. who expects to leverage this new relationship with full-scale marketing efforts, both inside and outside of stores, highlighted by exciting customer events including a three race NASCAR Sprint Cup Series sponsorship with Richard Petty Motorsports and the addition of new settings for the Hot Dog Eating Contest Qualifying Events. Additionally, John Morrell & Co. has initiated a mobile marketing tour whereby merchandising trucks will make over 200 scheduled stops at supermarkets throughout the country and certain Hot Dog Eating Contests to bring the Nathan's / Coney Island experience to new markets.

We expect to continue the growth of our Branded Product Program through the addition of new points of sale. We intend to keep targeting sales to a broad line of food distributors, which we believe compliments our continuing focus on sales to various retail chains. We continue to believe that as consumers look to assure confidence in the quality of the food that they purchase, there is great potential to increase our sales by converting existing sales of non-branded products to Nathan's branded products throughout the foodservice industry.

We also expect to continue opening traditional and Branded Menu Nathan's Famous franchised units individually and on a co-branded basis, expanding product distribution through various means such as branded products and retail licensing arrangements, developing master franchising programs in foreign countries and including our Arthur Treacher's signature products both within our restaurant system and as a separate Branded Menu Program.

We may selectively consider opening new Company-owned Nathan's units on an opportunistic basis. Existing Company-owned units are located in the New York metropolitan area, where we have extensive experience in operating restaurants. We may consider new opportunities in both traditional and captive market settings.

We believe that our international development efforts will continue to garner a variety of interest as a result of the unique product distribution opportunities that we offer. Because of the scalability of our concept and menu offerings, we believe that there are also opportunities to co-brand our restaurant concept and/or menu items with other restaurant concepts internationally. We believe that in addition to restaurant franchising, we could further increase revenues by continuing to offer master development agreements to qualified persons or entities allowing for the operation of franchised restaurants, sub-franchising of restaurants to others, licensing the manufacture of our signature products, selling our signature products through supermarkets or other retail venues and further developing our Branded Product Program. Qualified persons or entities must have satisfactory foodservice experience managing multiple units, the appropriate infrastructure and the necessary financial resources to support the anticipated development of the business.

Co-branding

We believe that there is a continuing opportunity for co-branding of our restaurant concept and/or menu items with other restaurant concepts, as well as within our restaurant system as new franchise opportunities are developed. Franchisees that have co-branded a Nathan's Famous restaurant with our other brands received a then-current Uniform Franchise Offering Circular ("UFOC") or Franchise Disclosure Document ("FDD") and executed a participation agreement as a rider to their franchise agreement. We initially implemented our co-branding strategy within the Nathan's Famous restaurant system by adding the Arthur Treacher's and Kenny Rogers Roasters brands into Nathan's Famous restaurants. Upon the sale of Kenny Rogers Roasters in April 2008, we discontinued co-branding that brand within new restaurants in the Nathan's Famous system. We have continued our co-branding effort with the Arthur Treacher's brand with new and existing Nathan's Famous franchisees and expect to do so in the future. During fiscal 2014, we expanded our Arthur Treacher's co-branding efforts beyond the Nathan's restaurant system, by marketing the Branded Menu Program to a multi-unit restaurant operator and may seek to further explore opportunities to co-brand the Arthur Treacher's brand to other multi-unit foodservice operators in the future.

At March 30, 2014, the Arthur Treacher's brand was being sold within 51 Nathan's restaurants and the Kenny Rogers Roasters brand was being sold within 34 Nathan's restaurants. We have the right to sell Kenny Rogers products in our Nathan's locations existing in April 2008 and to receive the revenue from those sales. Consequently, we have continued co-branding with Kenny Rogers products within those Nathan's Famous locations.

We believe that our diverse brand offerings complement each other, which has enabled us to market franchises of co-branded units and continue co-branding within our franchised units. We also believe that our various restaurants' products provide us with strong lunch and dinner day-parts.

We continue to market co-branded Nathan's units with Arthur Treacher's within the United States and internationally. We believe that a multi-branded restaurant concept offering strong lunch and dinner day-parts is appealing to both consumers and potential franchisees. Such restaurants are designed to allow the operator to increase sales and leverage the cost of real estate and other fixed costs to provide superior investment returns as compared to many restaurants that are single branded.

Licensing Program

Commencing March 2, 2014, John Morrell & Co., a subsidiary of Smithfield Foods, Inc., replaced SMG, Inc. as Nathan's primary licensee. Pursuant to the Agreement, John Morrell & Co., for a term of 18 years has been granted, among other things, (i) the exclusive right and obligation to manufacture, distribute, market and sell "Nathan's Famous" branded hot dog, sausage and corned beef products in refrigerated consumer packages to be resold through retail

channels (e.g., supermarkets, groceries, mass merchandisers and club stores) within the United States, (ii) a right of first offer to license any other “Nathan’s Famous” branded refrigerated meat products in consumer packages to be resold through retail channels within the United States, on terms to be negotiated in good faith, (iii) the right and obligation to manufacture “Nathan’s Famous” branded hot dog and sausage products in bulk for use in the food service industry within the United States, and (iv) the non-exclusive right and obligation to supply “Nathan’s Famous” natural casing and skinless hot dogs in bulk for use in the “Nathan’s Famous” restaurant system within the United States. The Agreement provides for royalties on packaged products sold to supermarkets, club stores and grocery stores, payable on a monthly basis to the Company equal to 10.8% of net sales, subject to minimum annual guaranteed royalties of at least \$10 million in the first year of the term and which minimum guaranteed royalties increase annually throughout the term. Nathan’s earned \$548,000 during the initial month of the Agreement with John Morrell & Co. Sales during this period were hampered as retail inventory produced by SMG was being sold off. The prior agreement with SMG (the “SMG License Agreement”) provided for royalties ranging between 3% and 5% of sales. The percentage varied based on sales volume, with escalating annual minimum royalties. Nathan’s earned royalties of approximately \$4,600,000 in fiscal 2014 and \$5,506,000 in fiscal 2013 pursuant to the SMG License Agreement which exceeded their contractual minimums established under the Previous License Agreement. While we believe our future operating results will be beneficially impacted by the terms and conditions of the new agreement with John Morrell & Co., as compared to the terms and conditions of the previous agreement with SMG, there can be no assurance thereof (See Item 1A - “Risk Factors”).

For eight years, John Morrell & Co. has licensed from us the right to manufacture and sell branded hot dogs and sausages to selected foodservice accounts. Pursuant to this arrangement, we earned royalties of \$1,594,000 and \$1,442,000 during fiscal 2014 and 2013, respectively. The majority of these royalties were earned from one account. Effective March 2, 2014, this arrangement will now be governed by our new license/supply agreement with John Morrell & Co., pursuant to which John Morrell & Co. will endeavor to perpetuate the business with the existing foodservice accounts they are currently servicing with our bulk products, as well as look for new foodservice opportunities within the environments of supermarkets, club stores, grocery stores and other retail locations that sell our consumer hot dog packages.

Under the new Agreement, the then-existing food service licensing arrangements terminated and were replaced by the new license agreement whereby John Morrell & Co. has the exclusive right to supply only certain food service customers including Sam's Club and other food service operations that exist within supermarkets, club stores, grocery stores and mass merchandisers.

As of March 30, 2014, packaged Nathan's World Famous Beef Hot Dogs continued to be sold in approximately 33,000 supermarkets and mass merchandisers including Costco, Wal-Mart, Sam's Clubs, Target and BJ's located in 45 states. We believe that the overall exposure of the brand and opportunity for consumers to enjoy the Nathan's World Famous Beef Hot Dog in their homes helps promote "Nathan's Famous" restaurant patronage. Royalties earned from these three agreements were approximately 79.2% of our fiscal 2014 license revenues.

We license the manufacture of the proprietary spices which are used to produce Nathan's World Famous Beef Hot Dogs to Saratoga Specialties. During fiscal 2014 and 2013, we earned \$707,000 and \$728,000, respectively, from this license. In the past, Newly Weds Foods, Inc. provided Nathan's with a secondary source of supply although they did not supply any spices during fiscal 2014.

During fiscal 2014, our licensee ConAgra Foods Lamb Weston, Inc. continued to produce and distribute Nathan's Famous frozen French fries and onion rings for retail sale pursuant to a license agreement. These products were distributed within 27 states, primarily on the East Coast and in the South-West and West Coast during fiscal 2014. During fiscal 2014 and 2013, we earned royalties of \$335,000 and \$297,000, respectively, under this agreement. For the contract year ended in July 2013, we earned royalties of \$19,000 in excess of the annual minimum. ConAgra Foods Lamb Weston, Inc. continues to seek to further expand its market penetration in the Eastern United States and in the Mid-West. During fiscal 2013, ConAgra Foods Lamb Weston, Inc. exercised its second option to extend the license agreement through July 2018, pursuant to which the minimum royalties will increase 5% annually.

During fiscal 2014, we continued to license the right to manufacture and sell miniature bagel dogs, franks-in-a-blanket and other hors d'oeuvres through club stores, supermarkets and other retail food stores. Royalties earned under this agreement were approximately \$340,000 during fiscal 2014 and \$258,000 during fiscal 2013. In connection with the extension of the agreement, we amended the license agreement reducing the minimum annual royalties to \$225,000

for the contract year ending September 2014.

In fiscal 2012, we entered into a new license agreement with Inventure Foods, Inc. for the manufacture and sale of Nathan's branded potato chips and three other salty snack products. Royalties earned under this agreement were approximately \$88,000 during fiscal 2014 and \$130,000 during fiscal 2013.

We also have licensing agreements with Hermann Pickle Packers, Inc., Gold Pure Food Products Co., Inc. and others. These companies licensed the "Nathan's Famous" or "Arthur Treacher's" name for the manufacture and sale of various products including mustard, salsa, sauerkraut and pickles. These products have been distributed on a limited basis. Fees and royalties earned from all of these products were approximately \$301,000 during fiscal 2014 and \$210,000 during fiscal 2013.

Provisions and Supplies

Effective March 2, 2014, Nathan's World Famous Beef Hot Dogs are being primarily manufactured by John Morrell & Co. for sale by our restaurant system, Branded Product Program and at retail. Previously, John Morrell & Co. manufactured our proprietary hot dogs in connection with sales pursuant to our Branded Product Program. Our proprietary hot dogs for sale by our restaurant system, Branded Product Program and at retail were produced primarily by SMG in accordance with Nathan's recipes, quality standards and proprietary spice formulations. Nathan's believes that it has reliable sources of supply; however, in the event of any significant disruption in supply, management believes that alternative sources of supply are available. (See Item 1A- "Risk Factors"). Saratoga Specialties produces Nathan's proprietary spice formulations and we have, in the past, also engaged Newly Weds Foods, Inc. as an alternative source of supply. Our frozen crinkle-cut French fries have been produced exclusively by ConAgra Foods Lamb Weston, Inc. Beginning in fiscal 2013, we commenced a relationship with McCain Foods USA as a secondary source of supply of our frozen French fries for our restaurant system. Most other Company provisions are purchased from multiple sources to prevent disruption in supply and to obtain competitive prices. We approve all products and product specifications. We negotiate directly with our suppliers on behalf of the entire system for all primary food ingredients and beverage products sold in the restaurants in an effort to ensure adequate supply of high quality items at competitive prices.

We utilize a unified source for the distribution needs of our restaurant system pursuant to a national food distribution contract with US Foodservice, Inc. This agreement enables our restaurant operators to order and receive deliveries for the majority of their food and paper products directly through this distributor. We believe that this arrangement not only ensures availability of product but is more efficient and cost-effective than having multiple distributors for our restaurant system. Effective August 1, 2013, we entered into a new agreement with US Foodservice that expires on July 31, 2018. The terms and conditions are similar to their previous agreement. Our branded products are delivered to our ultimate customers throughout the country by numerous distributors, including US Foodservice, Inc., SYSCO Corporation, Vistar / VSA, McLane and Performance Foodservice.

Marketing, Promotion and Advertising

Nathan's believes that an integral part of its brand marketing strategy is to continue to build brand awareness through its complimentary points of distribution strategy of selling its signature products through restaurants, the Branded Product Program, the Branded Menu Program, within supermarkets and club stores. We believe that as we continue to build brand awareness and expand our reputation for quality and value, we have further penetrated the markets that we serve and have also entered new markets. We also derive further brand recognition from the Nathan's Famous Hot Dog Eating Contests. In 2013, we hosted 12 regional contests at a variety of high profile locations such as New York New York Hotel and Casino, Las Vegas, NV, and Citifield, Queens, NY, as well as within the cities of St. Paul, MN, Atlanta, GA, Miami, FL, Pittsburgh, PA, Cleveland, OH, Boston, MA and Calgary, Alberta (Canada). In 2014, the qualifying tour will stop in four new cities. We are also premiering at NASCAR events including the annual Speed Street celebration in Charlotte, NC, Long Pond Speedway in the Poconos and Sonoma Raceway in northern California. Nathan's held its' first-ever qualifier at Busch Stadium prior to the St. Louis Cardinals Game in May. Our

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first regional contest of 2014 took place in Las Vegas on April 26th and stops in 12 additional cities. These regional contests culminate on July 4th each year as the regional champions converge at our flagship restaurant in Coney Island, NY, to compete for the coveted “Mustard Yellow Belt.” In 2011, we introduced our first-ever women’s-only Hot Dog Eating Contest which included the top finishing female competitor from each qualifying regional contest. The regional contests typically garner significant amounts of local publicity and the national championship contest that is held on July 4th each year generates significant nationwide publicity. The national championship contest has been broadcast on ESPN since 2004.

Nathan’s and John Morrell & Co. will also participate together in running two 6-week radio campaigns during the summer of 2014.

Nathan’s Famous continues to look to sports sponsorships as a strategic marketing opportunity to further our brand recognition. In addition to the branded signage opportunity, Nathan’s is given the opportunity to sell its Nathan’s World Famous Beef Hot Dog and crinkle-cut French fries. In many venues, Nathan’s World Famous Beef Hot Dogs and crinkle-cut French frie