NATHANS FAMOUS INC
Form 10-Q
February 03, 2017
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **December 25, 2016.**

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 number 0-3189

NATHAN'S FAMOUS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-3166443**
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)

One Jericho Plaza, Second Floor – Wing A, Jericho, New York 11753

(Address of principal executive offices)

(Zip Code)

(516) 338-8500

(Registrant's telephone number, including area code)

____

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

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 X 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No __

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 X
Non-accelerated filer __ (Do not check if a smaller reporting company)	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 X

At February 3, 2017 an aggregate of 4,176,497 shares of the registrant's common stock, par value of $.01, were outstanding.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

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Nathan's Famous, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 25, 2016 and March 27, 2016

(in thousands, except share and per share amounts)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

	December 25, 2016 (Unaudited)	March 27, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 56,403**	$50,228
Accounts and other receivables, net	**10,210**	8,721
Inventories	**394**	687
Prepaid expenses and other current assets (Note G)	**700**	1,343
Total current assets	**67,707**	60,979
Property and equipment, net of accumulated depreciation of $8,195 and $7,190, respectively	**9,009**	9,013
Goodwill	**95**	95
Intangible asset	**1,353**	1,353
Other assets	**94**	109
Total assets	**$ 78,258**	$71,549
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	**$ 2,774**	$4,887
Accrued expenses and other current liabilities (Note H)	**9,118**	6,176
Deferred franchise fees	**141**	137
Total current liabilities	**12,033**	11,200
Long-term debt, net of unamortized debt issuance costs of $3,824 and $4,734, respectively (Note M)	**131,176**	130,266
Other liabilities	**1,564**	1,706
Deferred income taxes	**805**	713

Total liabilities	**145,578**	143,885
COMMITMENTS AND CONTINGENCIES (Note N)		
STOCKHOLDERS' (DEFICIT)		
Common stock, $.01 par value; 30,000,000 shares authorized; 9,303,870 and 9,274,066 shares issued; and 4,176,497 and 4,177,309 shares outstanding at December 25, 2016 and March 27, 2016, respectively	**93**	93
Additional paid-in capital	**60,482**	60,950
(Accumulated deficit)	**(50,592)**	(57,348)
Treasury stock, at cost, 5,127,373 and 5,096,757 shares at December 25, 2016 and March 27, 2016, respectively	**(77,303)**	(76,031)
Total stockholders' (deficit)	**(67,320)**	(72,336)
Total liabilities and stockholders' (deficit)	**$ 78,258**	$71,549

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

Nathan's Famous, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

Thirteen and thirty-nine weeks ended December 25, 2016 and December 27, 2015

(in thousands, except share and per share amounts)

(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	December 25, 2016	December 27, 2015	**December 25, 2016**	December 27, 2015
REVENUES				
Sales	**$14,859**	$15,763	**$58,012**	$62,627
License royalties	**3,990**	3,614	**15,602**	15,406
Franchise fees and royalties	**1,088**	1,187	**3,752**	3,804
Total revenues	**19,937**	20,564	**77,366**	81,837
COSTS AND EXPENSES				
Cost of sales	**10,785**	12,082	**41,732**	47,848
Restaurant operating expenses	**695**	699	**2,711**	2,890
Depreciation and amortization	**309**	303	**1,005**	975
General and administrative expenses	**3,394**	3,045	**10,309**	9,647
Total costs and expenses	**15,183**	16,129	**55,757**	61,360
Income from operations	**4,754**	4,435	**21,609**	20,477
Interest expense	**(3,663)**	(3,708)	**(11,002)**	(11,126)
Interest income	**35**	-	**71**	52
Other income, net	**21**	21	**64**	72
Income before provision for income taxes	**1,147**	748	**10,742**	9,475
Provision for income taxes	**448**	316	**3,986**	3,886
Net income	**$699**	$432	**$6,756**	$5,589
PER SHARE INFORMATION				
Income per share:				
Basic	**$.17**	$.10	**$1.62**	$1.25
Diluted	**$.17**	$.10	**$1.61**	$1.24
Weighted average shares used in computing income per share:				

Basic	**4,175,000**	4,408,000	**4,171,000**	4,474,000
Diluted	**4,209,000**	4,444,000	**4,202,000**	4,504,000

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

Nathan's Famous, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Thirteen and thirty-nine weeks ended December 25, 2016 and December 27, 2015

(in thousands)

(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	December 25, 2016	December 27, 2015	**December 25, 2016**	December 27, 2015
Net income	**$699**	$ 432	**$6,756**	$ 5,589
Other comprehensive loss, net of deferred income taxes:				
Less: Reclassification adjustment for gains included in net income	**-**	-	**-**	47
Other comprehensive loss	**-**	-	**-**	(47)
Comprehensive income	**$699**	$ 432	**$6,756**	$ 5,542

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

Nathan's Famous, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT)

Thirty-nine weeks ended December 25, 2016

(in thousands, except share amounts)

(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	(Accumulated Deficit)	Treasury Stock, at Cost Shares	Treasury Stock, at Cost Amount	Total Stockholders' (Deficit)
Balance, March 27, 2016	9,274,066	$ 93	$ 60,950	$ (57,348)	5,096,757	$ (76,031)	$ (72,336)
Shares issued in connection with share-based compensation plans	**29,804**	**-**	**44**				**44**
Withholding tax on net share settlement of share-based compensation plans			**(994)**				**(994)**
Repurchase of common stock					**30,616**	**(1,272)**	**(1,272)**
Share-based compensation			**482**				**482**
Net income	**-**	**-**	**-**	**6,756**	-	-	**6,756**
Balance, December 25, 2016	**9,303,870**	**$ 93**	**$ 60,482**	**$ (50,592)**	**5,127,373**	**$ (77,303)**	**$ (67,320)**

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

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Nathan’s Famous, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Thirty-nine weeks ended December 25, 2016 and December 27, 2015

(in thousands)

(Unaudited)

	December 25, 2016	December 27, 2015
Cash flows from operating activities:		
Net income	**$ 6,756**	$ 5,589
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,005**	975
Amortization of bond premium	**-**	64
Gain on sale of marketable equity securities	**-**	(26)
Amortization of debt issuance costs	**910**	889
Share-based compensation expense	**482**	549
Income tax benefit on stock option exercises	**659**	-
Provision for doubtful accounts	**34**	23
Deferred income taxes	**92**	15
Changes in operating assets and liabilities:		
Accounts and other receivables, net	**(1,523)**	441
Inventories	**293**	253
Prepaid expenses and other current assets	**643**	3,618
Other assets	**15**	134
Accounts payable, accrued expenses and other current liabilities	**545**	1,575
Deferred franchise fees	**4**	(81)
Other liabilities	**(142)**	(355)
Net cash provided by operating activities	**9,773**	13,663
Cash flows from investing activities:		
Proceeds from sales and maturities of available-for-sale securities	**-**	10,868
Purchase of property and equipment	**(1,001)**	(550)
Purchase of available-for-sale securities	**-**	(3,887)
Net cash (used in) provided by investing activities	**(1,001)**	6,431
Cash flows from financing activities:		

Debt issuance costs	**-**	(60)
Income tax benefit on stock option exercises	**-**	142
Proceeds from exercise of stock options	**44**	44
Dividends paid upon vesting of restricted stock	**(375)**	(375)
Payments of withholding tax on net share settlement of share-based compensation plans	**(994)**	(260)
Repurchase of treasury stock	**(1,272)**	(11,270)
Net cash (used in) financing activities	**(2,597)**	(11,779)
Net increase in cash and cash equivalents	**6,175**	8,315
Cash and cash equivalents, beginning of period	**50,228**	51,393
Cash and cash equivalents, end of period	**$ 56,403**	$ 59,708
Cash paid (refunded) during the period for:		
Interest	**$ 6,750**	$ 6,938
Income taxes paid / (refunded)	**$ 2,976**	$ (95)

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

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NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 25, 2016

(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 thirty-nine week periods ended December 25, 2016 and December 27, 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America. 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.

Certain information and footnote disclosures normally included in financial statements in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the requirements of the Securities and Exchange Commission. 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 27, 2016.

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 27, 2016. Except for the adoption discussed in Note B – share-based payments to employees, there have been no changes to the Company’s significant accounting policies subsequent to March 27, 2016.

NOTE B– ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (the “FASB”), issued new guidance which addresses how companies account for certain aspects of its share-based payments to employees. The update simplifies the accounting for the tax consequences. It also amends how excess tax benefits and a company’s payments to cover the tax bills for the shares’ recipients should be classified on the statement of cash flows related to share-based payments to employees. The amendments allow companies to estimate the number of stock awards they expect to vest, and the amendments revised the withholding requirements for classifying stock awards as equity. Previously, tax withholding was permitted only at the minimum statutory tax rates, which is being amended to permit higher income tax withholding as long as it does not exceed the maximum statutory tax rate for an employee in the applicable jurisdictions. This new standard is effective for public companies with fiscal years beginning after December 15, 2016 which will be Nathan's first quarter ending (June 2017) of our fiscal year ending on March 25, 2018. However, early adoption is permitted.

The Company elected to early adopt this standard in the quarter ended June 26, 2016. The impact of the early adoption resulted in the Company recording a tax benefit of $38,000 and $659,000 within income tax expense for the thirteen and thirty-nine weeks ended December 25, 2016, respectively, related to the excess tax benefit on stock incentive awards that settled during these periods. Prior to adoption of this guidance, these amounts would have increased additional paid-in capital. These items shall not be factored into the projected annual income tax rate, but will be treated as discrete items when they occur. Accordingly, this new treatment will add additional volatility in the Company's effective tax rate.

The excess tax benefits for the thirteen and thirty-nine weeks ended December 27, 2015 were $77,000 and $142,000, respectively which increased additional paid-in-capital.

The Company accounts for forfeitures as they occur. Under the new guidance, excess tax benefits related to employee share-based payments of $659,000 are classified as operating activities in the statement of cash flows for the thirty-nine weeks ended December 25, 2016. The Company applied the effect of the guidance to the presentation of excess tax benefits in the statement of cash flows prospectively and no prior periods have been adjusted. The Company did not record any cumulative-effect adjustment to accumulated deficit or net assets as a result of adopting this new accounting standard. The Company also modified its diluted earnings per share calculation by excluding the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of its diluted earnings per share for the thirteen and thirty-nine weeks ended December 25, 2016.

NOTE C – NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the FASB issued a new accounting standard that attempts to establish a uniform basis for recording income to virtually all industries financial statements, under U.S. GAAP as amended in March 2016 and April 2016. The FASB issued two updates to the standard clarifying reporting revenue between Principle versus Agent and clarification in determining performance obligations and licenses guidance. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. In order to accomplish this objective, companies must evaluate the following five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. There are three basic transition methods that are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. guidance at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. Prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. guidance. Early adoption is prohibited. Public companies were originally expected to apply the new standard for annual periods beginning after December 15, 2016, including interim periods therein, which for Nathan's would have been its first quarter of fiscal 2018, beginning on March 27, 2017. On May 12, 2015, the FASB issued a second proposed update to the standard clarifying the distinction between revenue from licenses of intellectual property that represent a promise to deliver a good or service over time versus a promise to be satisfied at a point in time. On July 9, 2015, the FASB agreed to delay the standard's effective date to annual reporting periods beginning after December 15, 2017 which will now be our first quarter (June 2018) of our fiscal year ending March 31, 2019. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations. The Company does not believe that the standard will impact its recognition of revenue for its Branded Product Program, Company-operated restaurants or its recognition of royalties from its franchised restaurants or retail licenses, which are based on a percentage of sales. The Company is continuing to evaluate the impact the adoption of this standard will have on the recognition of fees received from international development fees from the sales of exclusive territorial rights, initial fees from franchises for new restaurant openings or extended franchise terms.

In August 2014, the FASB issued new guidance that requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions exist, management will be required to include disclosures enabling users to understand those conditions and management's plans to alleviate or mitigate those conditions. This new standard is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 16, 2016. This standard will take effect in Nathan's fourth quarter of our fiscal year ending March 26, 2017. Nathan's does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In July 2015, the FASB updated U.S. accounting guidance to simplify the ways businesses measure inventory. Companies that use the first-in, first-out (FIFO) method or the average cost method will measure inventory at the lower of its cost or net realizable value. Net realizable value is the estimated selling price in the normal course of business, minus the cost of completion, disposal, and transportation. Companies will no longer consider replacement cost or net realizable value less a normal profit margin when measuring inventory. This new standard is effective for annual reporting periods beginning after December 15, 2016 which will be our first quarter (June 2017) of our fiscal year ending March 25, 2018. Nathan’s does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In February 2016, the FASB issued a new accounting standard on leases. The new standard, among other changes, will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs (e.g. commissions). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. This standard is required to take effect in Nathan’s first quarter ending (June 2019) of our fiscal year ending March 29, 2020. The adoption will require a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest period presented. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

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

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 stock options. 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 and warrants, 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 thirty-nine week periods ended December 25, 2016 and December 27, 2015, respectively.

Thirteen weeks

	Net Income		Number of Shares		Net Income Per Share	
	2016	2015	**2016**	2015	**2016**	2015
	(in thousands)		(in thousands)			
Basic EPS						
Basic calculation	**$699**	$432	**4,175**	4,408	**$0.17**	$0.10
Effect of dilutive employee stock options	**-**	-	**34**	36	**-**	-
Diluted EPS						
Diluted calculation	**$699**	$432	**4,209**	4,444	**$0.17**	$0.10

Thirty-nine weeks

	Net Income		Number of Shares		Net Income Per Share	
	2016	2015	**2016**	2015	**2016**	2015
	(in thousands)		(in thousands)			
Basic EPS						
Basic calculation	**$6,756**	$5,589	**4,171**	4,474	**$1.62**	$1.25
Effect of dilutive employee stock options	**-**	-	**31**	30	**(0.01)**	(0.01)
Diluted EPS						
Diluted calculation	**$6,756**	$5,589	**4,202**	4,504	**$1.61**	$1.24

No options to purchase shares of common stock for the thirteen or thirty-nine week periods ended December 25, 2016 and December 27, 2015 were excluded from the computation of diluted earnings per share.

NOTE E– 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

At December 25, 2016 and March 27, 2016, we did not have any marketable securities that were valued at fair value.

The Company’s long-term debt had a face value of $135,000,000 as of December 25, 2016 and a fair value of $146,981,000 as of December 25, 2016. 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 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 December 25, 2016, no fair value adjustment or material fair value measurements were required for non-financial assets or liabilities.

NOTE F – ACCOUNTS AND OTHER RECEIVABLES, NET

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

	December 25, 2016	March 27, 2016
Branded product sales	**$ 6,545**	$5,689
Franchise and license royalties	**2,866**	2,592
Other	**1,299**	911
	10,710	9,192
Less: allowance for doubtful accounts	**500**	471
Accounts and other receivables, net	**$ 10,210**	$8,721

Accounts receivable are due within 30 days and are stated at amounts due from franchisees, retail licensees and Branded Product Program customers, net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are generally considered past due. The Company does not recognize franchise and license royalties that are not deemed to be realizable.

The Company individually reviews each past due account and determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, the Company’s previous loss history, the customer’s current and expected future ability to pay its obligation to the Company, the condition of the general economy and the industry as a whole. Based on management’s assessment, the Company provides for estimated uncollectible amounts 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 doubtful accounts.

Changes in the Company's allowance for doubtful accounts for the thirty-nine week period ended December 25, 2016 and the fiscal year ended March 27, 2016 are as follows (in thousands):

	December 25, 2016	March 27, 2016
Beginning balance	**$ 471**	$ 433
Bad debt expense	**34**	38
Accounts written off	**(5)**	(10)
Ending balance	**$ 500**	$ 471

NOTE G – PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	December 25, 2016	March 27, 2016
Income taxes	**$ -**	$ 211
Insurance	**225**	488
Other	**475**	644
Total prepaid expenses and other current assets	**$ 700**	$ 1,343

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NOTE H – ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER LIABILITIES

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

	December 25, 2016	March 27, 2016
Payroll and other benefits	**$ 2,114**	$2,919
Income taxes	**823**	82
Accrued rebates	**1,236**	940
Rent and occupancy costs	**203**	218
Deferred revenue	**79**	679
Construction costs	**216**	183
Interest	**3,849**	507
Professional fees	**204**	101
Dividend payable	**125**	375
Other	**269**	172
Total accrued expenses, other current liabilities and other liabilities	**$ 9,118**	$6,176

Other liabilities consist of the following (in thousands):

	December 25, 2016	March 27, 2016
Deferred development fees	**$ 174**	$129
Reserve for uncertain tax positions	**436**	427
Deferred rental liability	**822**	893
Dividend payable	**125**	250
Other	**7**	7
Total other liabilities	**$ 1,564**	$1,706

NOTE I – SALES

The Company's sales for the thirteen and thirty-nine weeks ended December 25, 2016 and December 27, 2015 are as follows (in thousands):

	Thirteen weeks ended		Thirty-nine weeks ended	
	December 25, 2016	December 27, 2015	**December 25, 2016**	December 27, 2015
Branded Products	**$12,868**	$ 13,565	**$44,349**	$ 47,160
Company-operated restaurants	**1,991**	2,030	**13,449**	14,872
Other	**-**	168	**214**	595
Total sales	**$14,859**	$ 15,763	**$58,012**	$ 62,627

NOTE J – INCOME TAXES

The income tax provisions for the thirty-nine week periods ended December 25, 2016 and December 27, 2015 reflect effective tax rates of 37.1% and 41.0%, respectively. Nathan's effective tax rate was reduced by 6.1% during the fiscal 2017 period as a result of a discrete tax benefit associated with stock compensation guidance from the FASB that was recently adopted by the Company. This favorable tax benefit was partially offset by an estimated unfavorable discrete adjustment of a prior years' tax position which increased Nathan's effective tax rate during the fiscal 2017 period by 1.1%. During the fiscal 2016 period, the Company's tax rate was negatively affected by 1.0% due to lost interest deductions arising from its investments in municipal securities. The Company's tax rate was favorably affected by 0.2% and 0.1% during the fiscal 2016 period, due to the settlement of an uncertain tax position and effects of tax-exempt interest income, respectively. For the thirty-nine week period ended December 25, 2016, excess tax benefits of $659,000 associated with stock compensation were reflected in the Consolidated Statements of Earnings as a component of the provision for income taxes as a result of the early adoption of guidance addressing how companies account for certain aspects of its share-based payments to employees. Please refer to Note B for more details regarding the adoption.

In June 2016, Nathan's received notification from the Internal Revenue Service that it was seeking to review Nathan's federal tax return for the period April 1, 2014 through March 31, 2015. The income tax examination has been completed with no changes to the original return as filed.

The amount of unrecognized tax benefits at December 25, 2016 was $207,000, all of which would impact Nathan's effective tax rate, if recognized. As of December 25, 2016, Nathan's had $228,000 of accrued interest and penalties in connection with unrecognized tax benefits.

During the fiscal year ending March 26, 2017, Nathan's will seek to settle additional uncertain tax positions with the tax authorities. As a result, it is reasonably possible the amount of unrecognized tax benefits, excluding the related accrued interest and penalties, could be reduced by up to $31,000, which would favorably impact Nathan's effective tax rate, although no assurances can be given in this regard.

Nathan's estimates that its annual effective tax rate for the fiscal year ending March 26, 2017 will be in the range of approximately 42.0% to 44.0%, excluding the impact of the excess tax benefit associated with stock compensation and the potential impact of any reduction to the Company's unrecognized tax benefits and related accrued interest and penalties. The final annual effective tax rate is subject to many variables, including the ultimate determination of revenue and income tax provision by state and local tax jurisdiction, among other factors, and therefore cannot be determined until the end of the fiscal year; therefore, the actual effective tax rate could differ from our current estimates.

NOTE K – SHARE-BASED COMPENSATION

Total share-based compensation during the thirteen-week periods ended December 25, 2016 and December 27, 2015 was $136,000 and $173,000, respectively. Total share-based compensation during the thirty-nine week periods ended December 25, 2016 and December 27, 2015 was $482,000 and $549,000, respectively. Total share-based compensation is included in general and administrative expense in our accompanying Consolidated Statements of Earnings. As of December 25, 2016, there was $599,000 of unamortized compensation expense related to share-based incentive awards. We expect to recognize this expense over approximately one year and seven months, which represents the weighted average remaining requisite service periods for such awards.

There were no new share-based awards granted during the thirty-nine week period ended December 25, 2016.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	December 25, 2016	December 27, 2015	**December 25, 2016**	December 27, 2015
Stock options	**$38**	$ 38	**$114**	$ 144
Restricted stock	**98**	135	**368**	405
Total compensation cost	**$136**	$ 173	**$482**	$ 549

Stock options outstanding:

During the fiscal year ended March 29, 2015, the Company granted options to purchase 50,000 shares at an exercise price of $53.89 per share, all of which expire five years from the date of grant. All such stock options vest ratably over a four-year period commencing August 6, 2015.

In connection with the Company's special cash dividend, which was paid on March 27, 2015, to stockholders of record as of March 20, 2015, the Company performed an analysis, pursuant to the anti-dilution provisions of the Company's 2010 Stock Incentive Plan, and issued replacement options to purchase 75,745 shares at an exercise price of $35.576 for the unvested stock options that were outstanding as of March 29, 2015. Nathan's performed its evaluation based on the closing price of its common stock on Friday, March 27, 2015 of $73.56 per share, or $48.56 per share excluding the dividend of $25.00 per share. No other terms or conditions of the outstanding options were modified. The anti-dilution provisions of the original award were structured to equalize the award's fair value before and after the modification.

Transactions with respect to stock options for the thirty-nine weeks ended December 25, 2016 are as follows: