

To Our Shareholders

On February 3, 2012, we reported results for our third quarter of the 2012 fiscal year that ended December 25, 2011.

For the fiscal quarter ended December 25, 2011:

- Net income was \$1,211,000 or \$0.24 per diluted share as compared to net (loss) of \$(153,000) or \$(0.03) per diluted share for the thirteen weeks ended December 26, 2010;
- Non-GAAP earnings after tax, which exclude the litigation expense items described below, increased by 17.8% to \$1,284,000 as compared to \$1,090,000 for the thirteen weeks ended December 26, 2010;
- Non-GAAP earnings per share, which exclude the litigation expense items described below, increased by 25.0% to \$0.25 per diluted share as compared to \$0.20 per diluted share for the thirteen weeks ended December 26, 2010; and
- Revenues increased by 13.2% to \$14,800,000, as compared to revenues of \$13,079,000 during the thirteen weeks ended December 26, 2010.

For the thirty-nine weeks ended December 25, 2011:

- Net income was \$5,076,000 or \$0.98 per diluted share as compared to \$1,658,000 or \$0.30 per diluted share for the thirty-nine weeks ended December 26, 2010;
- Non-GAAP earnings after tax, which exclude the litigation expense items described below, increased by 6.5% to \$5,292,000 as compared to \$4,969,000 for the thirty-nine weeks ended December 26, 2010;
- Non-GAAP earnings per share, which exclude the litigation expense items described below, increased by 14.6% to \$1.02 per diluted share as compared to \$0.89 per diluted share for the thirty-nine weeks ended December 26, 2010; and
- Revenues increased by 15.2% to \$51,815,000, as compared to revenues of \$44,987,000 during the thirty-nine weeks ended December 26, 2010.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 28.6% to \$29,843,000 during the thirty-nine weeks ended December 25, 2011 as compared to sales of \$23,199,000 during the thirty-nine weeks ended December 26, 2010.

Sales and pre-tax profits from the five comparable company-owned restaurants were \$11,218,000 and \$2,207,000, respectively during the thirty-nine weeks ended December 25, 2011 as compared to \$11,310,000 and \$2,245,000, respectively during the thirty-nine weeks ended December 26, 2010.

Gross profit was 20.7% of sales as compared to 24.4% of sales during the thirty-nine weeks ended December 26, 2010 due primarily to the impact of unusually high beef costs on our Branded Product Program.

Retail license royalties increased by 9.1% or \$442,000 to \$5,307,000 during the thirty-nine weeks ended December 25, 2011 as compared to \$4,865,000 during the thirty-nine weeks ended December 26, 2010.

Revenues from franchise operations increased by 8.7% or \$341,000 to \$4,265,000 during the thirty-nine weeks ended December 25, 2011 as compared to \$3,924,000 during the thirty-nine weeks ended December 26, 2010. Fifty-six new franchised units were opened during the thirty-nine weeks ended December 25, 2011, including two restaurants in Canada, two restaurants in China, one restaurant in the Dominican Republic and one restaurant in Kuwait.

We have opened 40 Branded Menu Program units during the thirty-nine weeks ended December 25, 2011, including 29 locations within K-Mart. Our Branded Menu Program was created to provide qualified operators of existing locations with the ability to become a Nathan's franchisee, adding our signature products along with a limited-menu of other Nathan's products to their current operations.

The effective tax rate of 38.7% is approximately 5.8% higher than for the thirty-nine weeks ended December 26, 2010 when we earned higher tax-exempt interest income and resolved uncertain tax positions, reversing \$79,000 of prior period accruals.

During the thirty-nine weeks ended December 26, 2010, we recorded a litigation accrual of \$4,910,000, or \$2,939,000, net of tax, as a result of the unfavorable SMG ruling, which at that time represented the minimum estimate of damages.

During the thirty-nine weeks ended December 25, 2011, we continued our stock repurchase program, acquiring 137,249 shares at a total cost of approximately \$2,573,000.

On December 8, 2011, we launched a modified dutch tender offer to acquire up to 500,000 shares of common stock. We completed the offer in January 2012 by acquiring 598,989 shares, after electing to exercise our option to acquire an additional 2% of the outstanding stock at a cost of approximately \$13,177,000 (or \$22.00 per share), excluding fees and expenses. The results of this tender offer will be reflected in the consolidated financial statements during the thirteen weeks ending March 25, 2012.

As we have previously described with respect to our litigation with SMG, on April 7, 2011, the Court entered a stipulation and order which granted a stay of enforcement of the final judgment which is in the amount of approximately \$4,910,000.

On March 4, 2011, Nathan's filed a notice of appeal seeking to appeal the final judgment. Throughout the duration of the appeal, Nathan's is required to deposit post-judgment interest on the damages awarded at 9% per annum into a security account. Nathan's has made these deposits and recorded interest expense of \$335,000 or \$200,000, net of tax, during the thirty-nine weeks ended December 25, 2011.

Certain Non-GAAP Financial Information:

In addition to disclosing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), the Company has provided its Non-GAAP earnings and earnings per diluted share as adjusted for the litigation expenses described above, including the interest expense that has accrued during the appeals process through the end of the third quarter, that the Company believes impacts the comparability of its results of operations.

The Company believes that such non-GAAP financial information is useful to investors to assist in assessing and understanding the Company's operating performance and underlying trends in the Company's business because management considers the litigation expenses referred to above to be outside the Company's normal operating results. This non-GAAP financial information is among the indicators management uses as a basis for evaluating the Company's financial and operating performance.

The presentation of this additional non-GAAP financial information is not meant to be considered in isolation or as a substitute for, or alternative to, earnings and earnings per diluted share determined in accordance with GAAP. Analysis of results and outlook on a non-GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with GAAP.

About Nathan's Famous:

Nathan's products are currently distributed in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, the Cayman Islands and six foreign countries through its restaurant system, foodservice sales programs and product licensing activities. The Nathan's restaurant system currently consists of 302 units, comprised of 297 franchised units and five company-owned units (including one seasonal unit). For additional information about Nathan's please visit our website at www.nathansfamous.com.

Except for historical information contained in this news release, the matters discussed are forward looking statements that involve risks and uncertainties. Words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions identify forward-looking statements, which are based on the current belief of the Company's management, as well as assumptions made by and information currently available to the Company's management. Among the factors that could cause actual results to differ materially are the following: the effect of business and economic conditions; the impact of competitive products and pricing; the ability to obtain an adequate supply of beef and other food products at competitive prices; capacity; the regulatory and trade environment; the risk factors and the forward-looking statements reported from time to time in the Company's SEC reports. The Company does not undertake any obligation to update such forward-looking statements.

Sincerely,

Eric Gatoff
Chief Executive Officer

Wayne Norbitz
President
and Chief Operating Officer

Nathan's Famous, Inc.
Financial Highlights

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Dec. 25, 2011</u>	<u>Dec. 26, 2010</u>	<u>Dec. 25, 2011</u>	<u>Dec. 26, 2010</u>
	(unaudited)		(unaudited)	
Total revenues	\$ <u>14,800,000</u>	\$ <u>13,079,000</u>	\$ <u>51,815,000</u>	\$ <u>44,987,000</u>
Net income (loss)	\$ <u>1,211,000</u>	\$ <u>(153,000)</u>	\$ <u>5,076,000</u>	\$ <u>1,658,000</u>
Basic income (loss) per share				
Net income (loss)	\$ <u>0.24</u>	\$ <u>(0.03)</u>	\$ <u>1.01</u>	\$ <u>0.30</u>
Diluted income (loss) per share				
Net income (loss)	\$ <u>0.24</u>	\$ <u>(0.03)</u>	\$ <u>0.98</u>	\$ <u>0.30</u>
Weighted-average shares used in computing income (loss) per share				
Basic	<u>4,964,000</u>	<u>5,352,000</u>	<u>5,022,000</u>	<u>5,506,000</u>
Diluted	<u>5,113,000</u>	<u>5,352,000</u>	<u>5,159,000</u>	<u>5,608,000</u>

Nathan's Famous, Inc.
Reconciliation of GAAP and Non-GAAP Measures

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Dec. 25, 2011</u>	<u>Dec. 26, 2010</u>	<u>Dec. 25, 2011</u>	<u>Dec. 26, 2010</u>
	(unaudited)		(unaudited)	
<u>NET INCOME (LOSS)</u>				
Net income (loss)	\$ 1,211,000	\$ (153,000)	\$ 5,076,000	\$ 1,658,000
Litigation accrual, (net of tax)	-	1,194,000	-	2,939,000
Legal expense (a), (net of tax)	6,000	49,000	16,000	372,000
Interest expense (b), (net of tax)	<u>67,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
Non-GAAP income	<u>\$ 1,284,000</u>	<u>\$ 1,090,000</u>	<u>\$ 5,292,000</u>	<u>\$ 4,969,000</u>
<u>DILUTED INCOME (LOSS) PER SHARE</u>				
Net income (loss)	\$ 0.24	\$ (0.03)	\$ 0.98	\$ 0.30
Litigation accrual, (net of tax)	-	0.22	-	0.52
Legal expense (a), (net of tax)	-	0.01	-	0.07
Interest expense (b), (net of tax)	<u>0.01</u>	<u>-</u>	<u>0.04</u>	<u>-</u>
Non-GAAP income per share	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ 1.02</u>	<u>\$ 0.89</u>

(a) Represents legal expense incurred in connection with the SMG matter during the respective periods.

(b) Represents accrued interest expense incurred in connection with Nathan's appeal of the SMG damages award.

Nathan's Famous, Inc. and Subsidiaries
Summary Balance Sheet Data

	<u>Dec. 25, 2011</u> (Unaudited)	<u>March 27, 2011</u>
Assets		
Current assets	\$ 46,337,000	\$ 44,419,000
Property and equipment	5,704,000	5,786,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>1,414,000</u>	<u>1,305,000</u>
Total assets	<u>\$ 54,903,000</u>	<u>\$ 52,958,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 11,891,000	\$ 12,965,000
Other long-term obligations	2,131,000	1,915,000
Stockholders' equity	<u>40,881,000</u>	<u>38,078,000</u>
Total liabilities and stockholders' equity	<u>\$ 54,903,000</u>	<u>\$ 52,958,000</u>