

## *To Our Shareholders*

Management is extremely pleased that this is the thirteenth consecutive quarter in which quarterly profits from continuing operations have increased as compared to the same period of the prior year.

Net income for the quarter ended June 25, 2006 increased by 19.4% to \$1,396,000 or \$0.24 per basic share and \$0.22 per diluted share as compared to \$1,169,000 or \$0.21 per basic share and \$0.18 per diluted share for the quarter ended June 26, 2005. Income from continuing operations was \$1,396,000 or \$0.24 per basic share and \$0.22 per diluted share for the quarter ended June 25, 2006 as compared to \$1,191,000 or \$0.21 per basic share and \$0.18 per diluted share for the quarter ended June 26, 2005. Total revenue from continuing operations increased by 7.6% to \$12,244,000 during the quarter ended June 25, 2006 as compared to \$11,382,000 during the quarter ended June 26, 2005.

Nathan's was the number one retail selling "premium" all beef hot dog based upon pounds sold and the third highest retail selling all beef hot dog in the United States for the fifty-two weeks ended April 22, 2006.

The Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, has continued to grow. Sales increased by 17.8% to \$5,073,000 for the first quarter fiscal 2007 as compared to sales of \$4,305,000 in the first quarter fiscal 2006.

Nathan's other operating profit centers, including company-owned restaurants, restaurant franchising and retail licensing, and sales to a television marketer, increased revenues by \$111,000 or 1.6% compared to the first quarter fiscal 2006.

At June 25, 2006, Nathan's products were distributed in 49 states, the District of Columbia and 13 foreign countries through its restaurant system, Branded Product Program and retail licensing activities. At June 25, 2006, Nathan's restaurant system consisted of 362 franchised or licensed units and six company-owned units (including one seasonal unit) featuring the Nathan's, Miami Subs and Kenny Rogers Roasters brands. For additional information about Nathan's, Kenny Rogers Roasters or Miami Subs please visit our website at [www.nathansfamous.com](http://www.nathansfamous.com)

Sincerely,

Howard M. Lorber  
Chairman of the Board  
and Chief Executive Officer

Wayne Norbitz  
President  
and Chief Operating Officer

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Consolidated Statements of Earnings Data**

	<u>Thirteen weeks Ended</u> (Unaudited)	
	<u>June 25, 2006</u>	<u>June 26, 2005</u>
Total revenues from continuing operations	\$ 12,244,000	\$ 11,382,000
Income from continuing operations	\$ 1,396,000	\$ 1,191,000
Loss from discontinued operations	<u>\$ -</u>	<u>\$ (22,000)</u>
Net income	<u>\$ 1,396,000</u>	<u>\$ 1,169,000</u>
Basic income (loss) per share		
Income from continuing operations	\$ 0.24	\$ 0.21
(Loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.00)</u>
Net income	<u>\$ 0.24</u>	<u>\$ 0.21</u>
Diluted income (loss) per share		
Income from continuing operations	\$ 0.22	\$ 0.18
(Loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.00)</u>
Net income	<u>\$ 0.22</u>	<u>\$ 0.18</u>
Weighted average shares used in computing per share information		
Basic	<u>5,733,000</u>	<u>5,555,000</u>
Diluted	<u>6,316,000</u>	<u>6,474,000</u>

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Balance Sheet Data**

	<u>June 25, 2006</u> (Unaudited)	<u>Mar. 26, 2006</u>
Assets		
Current assets	\$ 28,823,000	\$ 26,999,000
Property and equipment, net	4,518,000	4,568,000
Notes receivable, net	75,000	137,000
Intangible assets, net	3,917,000	3,979,000
Other assets, net	<u>1,777,000</u>	<u>1,740,000</u>
Total assets	<u>\$ 39,110,000</u>	<u>\$ 37,423,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 8,030,000	\$ 7,924,000
Capitalized lease obligation less current maturities	-	31,000
Other long-term obligations	1,386,000	1,420,000
Stockholders' equity	<u>29,694,000</u>	<u>28,048,000</u>
Total liabilities and stockholders' equity	<u>\$ 39,110,000</u>	<u>\$ 37,423,000</u>