

To Our Shareholders

On November 3, 2017, we reported results for the second quarter of our 2018 fiscal year that ended September 24, 2017.

For the fiscal quarter ended September 24, 2017:

- Revenues were \$31,606,000, as compared to \$28,013,000 during the thirteen weeks ended September 25, 2016;
- Income from operations was \$8,734,000, as compared to \$8,031,000 during the thirteen weeks ended September 25, 2016;
- Adjusted EBITDA, as subsequently defined, was \$9,257,000 as compared to \$8,610,000 for the thirteen weeks ended September 25, 2016;
- Net income was \$3,120,000, as compared to \$2,507,000 for the thirteen weeks ended September 25, 2016;
- Earnings per diluted share was \$0.74 per share, as compared to \$0.60 per share for the thirteen weeks ended September 25, 2016; and
- Excluding the tax benefits of stock compensation as described below, net income and earnings per diluted share, would have been \$3,004,000 or \$0.71 per share, as compared to \$2,507,000 or \$0.60 per share, as reported, for the thirteen weeks ended September 25, 2016.

For the twenty-six weeks ended September 24, 2017:

- Revenues were \$62,524,000, as compared to \$57,429,000 during the twenty-six weeks ended September 25, 2016;
- Income from operations was \$17,184,000, as compared to \$16,855,000 during the twenty-six weeks ended September 25, 2016;
- Adjusted EBITDA, as subsequently defined, was \$18,230,000 as compared to \$17,976,000 for the twenty-six weeks ended September 25, 2016;
- Net income was \$6,042,000, as compared to \$6,057,000 for the twenty-six weeks ended September 25, 2016;
- Earnings per diluted share was \$1.43 per share, as compared to \$1.44 per share for the twenty-six weeks ended September 25, 2016; and
- Excluding the tax benefits of stock compensation as described below, net income and earnings per diluted share, would have been \$5,848,000 or \$1.39 per share, as compared to \$5,436,000 or \$1.29 per share for the twenty-six weeks ended September 25, 2016.

License royalties increased to \$13,165,000 during the twenty-six weeks ended September 24, 2017, as compared to \$11,612,000 during the twenty-six weeks ended September 25, 2016. During the twenty-six weeks ended September 24, 2017, total royalties earned under the John Morrell & Co., agreement from the sale of hot dogs, increased 13.6% to \$12,173,000, as compared to \$10,714,000 of royalties earned during the twenty-six weeks ended September 25, 2016.

In the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, sales increased by 14.6% to \$36,067,000 during the twenty-six weeks ended September 24, 2017, compared to sales of \$31,481,000 during the twenty-six weeks ended September 25, 2016. During the period, the volume of hot dogs sold increased 11.0% and our average selling price increased by approximately 3.3%. Income from operations from the Branded Product Program declined by approximately \$485,000 for the fiscal 2018 period as compared to the fiscal 2017 period, as a result of a significant increase in the cost of beef during May and June 2017.

Sales from Company-operated restaurants were \$10,805,000 during the twenty-six weeks ended September 24, 2017, compared to \$11,458,000 during the twenty-six weeks ended September 25, 2016. Sales were impacted by unfavorable weather conditions during the fiscal 2018 period, especially at our two locations in Coney Island that depend on beach traffic.

Revenues from franchise operations were \$2,487,000 during the twenty-six weeks ended September 24, 2017, compared to \$2,664,000 during the twenty-six weeks ended September 25, 2016. Total royalties were \$2,330,000 in the fiscal 2018 period as compared to \$2,402,000 in the fiscal 2017 period. Total franchise fee income was \$157,000 during the twenty-six weeks ended September 24, 2017 compared to \$262,000 during the twenty-six weeks ended September 25, 2016. Twenty-seven new franchised outlets opened during the twenty-six weeks ended September 24, 2017, including nine international locations, and 15 Branded Menu Program outlets.

Nathan's recognized excess tax benefits of \$194,000 and \$621,000 during the fiscal 2018 and fiscal 2017 periods, respectively, as a result of the tax benefits associated with the stock compensation guidance that the Company adopted in the fiscal 2017 period. The impact of the tax benefits reduced Nathan's tax rate by 1.9% and 6.4%, respectively, and increased earnings per diluted share by \$0.04 and \$0.15, during the fiscal 2018 and fiscal 2017 periods, respectively.

On November 1, 2017, Nathan's issued \$150.0 million 6.625% Senior Secured Notes due 2025 to fund the November 16, 2017 redemption of its 10.000% Senior Secured Notes due 2020. Nathan's will incur additional expenses in connection with the refinancing, including a 5% call premium of \$6,750,000 along with expensing the unamortized debt issuance costs of up to approximately, \$2,725,000 associated with the 2020 Notes. The Company also expects to incur additional interest expense of approximately \$562,500 from the time the 2025 Notes close until the time the 2020 Notes are redeemed. The Company expects to reduce its future annual interest expense by approximately \$3,562,500 per annum.

On November 1, 2017, the Board of Directors declared the \$5.00 per share special cash dividend that is payable on January 4, 2018 to shareholders of record at the close of business on December 22, 2017.

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 ("US GAAP"), the Company has provided EBITDA excluding (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA excluding (i) stock-based compensation that the Company believes will impact the comparability of its results of operations.

The Company believes that EBITDA and Adjusted EBITDA are useful to investors to assist in assessing and understanding the Company's operating performance and underlying trends in the Company's business because EBITDA and Adjusted EBITDA are (i) among the measures used by management in evaluating performance and (ii) are frequently used by securities analysts, investors and other interested parties as a common performance measure.

EBITDA and Adjusted EBITDA are not recognized terms under US GAAP and should not be viewed as alternatives to net income (loss) or other measures of financial performance or liquidity in conformity with US GAAP. Additionally, our definitions of EBITDA and Adjusted EBITDA may differ from other companies. Analysis of results and outlook on a non-US GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with US GAAP.

About Nathan's Famous

Nathan's is a Russell 2000 Company that currently distributes its products in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and thirteen foreign countries through its restaurant system, foodservice sales programs and product licensing activities. Last year, over 600 million Nathan's Famous hot dogs were sold. Nathan's was ranked #22 on the Forbes 2014 list of the Best Small Companies in America and was listed as the Best Small Company in New York State in October 2013. For additional information about Nathan's please visit our website at www.nathansfamous.com.

Sincerely,

Eric Gatoff
Chief Executive Officer

Nathan's Famous, Inc.
(unaudited)

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 24, 2017</u>	<u>Sept. 25, 2016</u>	<u>Sept. 24, 2017</u>	<u>Sept. 25, 2016</u>
<u>Financial Highlights</u>				
Total revenues	<u>\$ 31,606,000</u>	<u>\$ 28,013,000</u>	<u>\$ 62,524,000</u>	<u>\$ 57,429,000</u>
Income from operations (a)	<u>\$ 8,734,000</u>	<u>\$ 8,031,000</u>	<u>\$ 17,184,000</u>	<u>\$ 16,855,000</u>
Net income	<u>\$ 3,120,000</u>	<u>\$ 2,507,000</u>	<u>\$ 6,042,000</u>	<u>\$ 6,057,000</u>
Income per share:				
Basic	<u>\$ 0.75</u>	<u>\$ 0.60</u>	<u>\$ 1.45</u>	<u>\$ 1.45</u>
Diluted	<u>\$ 0.74</u>	<u>\$ 0.60</u>	<u>\$ 1.43</u>	<u>\$ 1.44</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,179,000</u>	<u>4,172,000</u>	<u>4,178,000</u>	<u>4,169,000</u>
Diluted	<u>4,212,000</u>	<u>4,207,000</u>	<u>4,213,000</u>	<u>4,199,000</u>

Select Segment Information

<u>Revenues</u>				
Branded product program	\$18,130,000	\$15,277,000	\$36,067,000	\$31,696,000
Product licensing	5,764,000	4,788,000	13,165,000	11,612,000
Restaurant operations	7,712,000	7,948,000	13,292,000	14,121,000
Corporate	-	-	-	-
Total Revenues	<u>\$31,606,000</u>	<u>\$28,013,000</u>	<u>\$62,524,000</u>	<u>\$57,429,000</u>
<u>Income from operations (b)</u>				
Branded product program	\$2,692,000	\$2,496,000	\$4,964,000	\$5,449,000
Product licensing	5,719,000	4,743,000	13,075,000	11,521,000
Restaurant operations	2,335,000	2,602,000	3,230,000	4,035,000
Corporate (c)	<u>(2,012,000)</u>	<u>(1,810,000)</u>	<u>(4,085,000)</u>	<u>(4,150,000)</u>
Income from operations (b)	<u>\$8,734,000</u>	<u>\$8,031,000</u>	<u>\$17,184,000</u>	<u>\$16,855,000</u>

- (a) Excludes interest expense, interest income, and other income, net.
- (b) Excludes interest expense, interest income and other income, net which are managed centrally at the corporate level, and, accordingly, such items are not presented by segment since they are excluded from the measure of profitability reviewed by the Chief Operating Decision Maker.
- (c) Consists principally of administrative expenses not allocated to the operating segments such as executive management, finance, information technology, legal, insurance, corporate office costs, incentive compensation and compliance costs.

Nathan's Famous, Inc. and Subsidiaries
Reconciliation of Net Income to EBITDA and Adjusted EBITDA

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 24, 2017</u> (unaudited)	<u>Sept. 25, 2016</u>	<u>Sept. 24, 2017</u> (unaudited)	<u>Sept. 25, 2016</u>
EBITDA				
Net Income	\$ 3,120,000	\$ 2,507,000	\$ 6,042,000	\$ 6,057,000
Interest Expense	3,663,000	3,663,000	7,326,000	7,339,000
Provision for income taxes	2,007,000	1,918,000	3,928,000	3,538,000
Depreciation and amortization	<u>367,000</u>	<u>349,000</u>	<u>735,000</u>	<u>696,000</u>
EBITDA	<u>\$ 9,157,000</u>	<u>\$ 8,437,000</u>	<u>\$ 18,031,000</u>	<u>\$ 17,630,000</u>
 <u>Adjusted EBITDA</u>				
EBITDA	\$ 9,157,000	\$ 8,437,000	\$ 18,031,000	\$ 17,630,000
Stock-based compensation	<u>100,000</u>	<u>173,000</u>	<u>199,000</u>	<u>346,000</u>
Adjusted EBITDA	<u>\$ 9,257,000</u>	<u>\$ 8,610,000</u>	<u>\$ 18,230,000</u>	<u>\$ 17,976,000</u>

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

	<u>Sept. 24, 2017</u> <u>Unaudited</u>	<u>March 26, 2017</u>
Assets		
Current assets	\$ 74,281,000	\$ 67,535,000
Property and equipment, net of accumulated depreciation	8,466,000	8,844,000
Intangible assets	1,448,000	1,448,000
Other assets	<u>293,000</u>	<u>298,000</u>
Total assets	<u>\$ 84,488,000</u>	<u>\$ 78,125,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 10,512,000	\$ 10,772,000
Long-term debt, net of unamortized debt issuance costs	132,074,000	131,475,000
Other liabilities	1,455,000	1,555,000
Deferred income taxes	854,000	814,000
Stockholders' (deficit)	<u>(60,407,000)</u>	<u>(66,491,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 84,488,000</u>	<u>\$ 78,125,000</u>