

## *To Our Shareholders*

On February 2, 2018, we reported results for the third quarter of our 2018 fiscal year that ended December 24, 2017.

For the fiscal quarter ended December 24, 2017:

- Revenues increased to \$22,083,000, as compared to \$19,937,000 during the thirteen weeks ended December 25, 2016;
- Income from operations increased to \$5,370,000, as compared to \$4,754,000 during the thirteen weeks ended December 25, 2016;
- Adjusted EBITDA, as subsequently defined, increased to \$5,855,000 as compared to \$5,255,000 for the thirteen weeks ended December 25, 2016;
- Excluding the loss on debt extinguishment and revaluation of deferred tax liabilities as described above, net income and earnings per diluted share, would have been \$1,0510,000 or \$0.25 per share, as compared to \$699,000 or \$0.17 per share, as reported, for the thirteen weeks ended December 25, 2016;
- In connection with our refinancing of the 10.000% Senior Secured Notes due 2020, we recorded a loss on debt extinguishment of \$8,872,000, or \$5,266,000, net of tax, or \$1.25 per diluted share. We expect the new 6.6250% Senior Secured Notes due 2025 to lower our cash interest expense by \$3,562,500 per annum;
- Benefit for income taxes was increased by \$436,000 or \$0.10 per diluted share resulting from the revaluation of its deferred tax liabilities resulting from the effects of tax reform;
- Net loss was \$3,779,000, as compared to net income \$699,000 for the thirteen weeks ended December 25, 2016; and
- Loss per diluted share was \$0.90 per share, as compared to earnings of \$0.17 per share for the thirteen weeks ended December 25, 2016.

For the thirty-nine weeks ended December 24, 2017:

- Revenues increased to \$84,607,000, as compared to \$77,366,000 during the thirty-nine weeks ended December 25, 2016;
- Income from operations increased to \$22,554,000, as compared to \$21,609,000 during the thirty-nine weeks ended December 25, 2016;
- Adjusted EBITDA, as subsequently defined, increased to \$24,085,000 as compared to \$23,231,000 for the thirty-nine weeks ended December 25, 2016;
- Excluding the loss on debt extinguishment and revaluation of deferred tax liabilities as described above, net income and earnings per diluted share, would have been \$7,093,000 or \$1.68 per share, as compared to \$6,756,000 or \$1.61 per share, as reported, for the thirty-nine weeks ended December 25, 2016;
- In connection with our refinancing of the 10.000% Senior Secured Notes due 2020, we recorded a loss on debt extinguishment of \$8,872,000, or \$5,266,000, net of tax, or \$1.25 per diluted share. We expect the new 6.6250% Senior Secured Notes due 2025 to lower our cash interest expense by \$3,562,500 per annum;
- Provision for income taxes was reduced by \$436,000 or \$0.10 per diluted share resulting from the revaluation of its deferred tax liabilities resulting from the effects of tax reform;
- Net income was \$2,263,000, as compared to \$6,756,000 for the thirty-nine weeks ended December 25, 2016; and
- Earnings per diluted share was \$0.54 per share, as compared to \$1.61 per share for the thirty-nine weeks ended December 25, 2016.

License royalties increased to \$17,393,000 during the thirty-nine weeks ended December 24, 2017, as compared to \$15,602,000 during the thirty-nine weeks ended December 25, 2016. During the thirty-nine weeks ended December 24, 2017, total royalties earned under the John Morrell & Co., agreement from the sale of hot dogs, increased 11.5% to \$15,853,000, as compared to \$14,214,000 during the thirty-nine weeks ended December 25, 2016.

In the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, sales increased by 14.4% to \$50,741,000 during the thirty-nine weeks ended December 24, 2017, as compared to sales of \$44,349,000 during the thirty-nine weeks ended December 25, 2016. During the period, the volume of hot dogs sold increased 10.9% and our average selling price increased by approximately 3.2%. Income from operations from the Branded Product Program declined by approximately \$448,000 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, June and July 2017. During this three month period, income from operations from the Branded Products Program declined by \$1,343,000 as a direct result of the increase in the cost of beef, while income from operations increased by \$895,000 during the remainder of the fiscal period.

Sales from Company-operated restaurants were \$12,898,000 during the thirty-nine weeks ended December 24, 2017, compared to \$13,449,000 during the thirty-nine weeks ended December 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 \$3,575,000 during the thirty-nine weeks ended December 24, 2017, compared to \$3,752,000 during the thirty-nine weeks ended December 25, 2016. Total royalties were \$3,293,000 in the fiscal 2018 period as compared to \$3,386,000 in the fiscal 2017 period. Total franchise fee income was \$282,000 during the thirty-nine weeks ended December 24, 2017 compared to \$366,000 during the thirty-nine weeks ended December 25, 2016. Thirty-five new franchised outlets opened during the thirty-nine weeks ended December 24, 2017, including 13 international locations, and 17 Branded Menu Program outlets.

Nathan's recognized excess tax benefits of \$194,000 and \$659,000 during the fiscal 2018 and fiscal 2017 periods, respectively, as a result of the tax benefits associated with stock compensation. The impact of the tax benefits reduced Nathan's tax rate by 6.7% and 6.1%, respectively, and increased earnings per diluted share by \$0.05 and \$0.16, 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 \$135.0 million 10.000% Senior Secured Notes due 2020. Nathan's incurred a loss on debt extinguishment associated with the refinancing of \$8,872,000. The Company also incurred additional interest expense of approximately \$562,500 from the time the 2025 Notes closed until the time the 2020 Notes were redeemed. The Company expects to reduce its future cash annual interest expense by \$3,562,500 per annum.

On November 1, 2017, the Board of Directors declared the \$5.00 per share special cash dividend that was paid 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 (benefit) for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA excluding (i) loss on debt extinguishment and (ii) 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](http://www.nathansfamous.com).

Sincerely,

Eric Gatoff  
Chief Executive Officer

**Nathan's Famous, Inc.**  
**(unaudited)**

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Dec. 24, 2017</u>	<u>Dec. 25, 2016</u>	<u>Dec. 24, 2017</u>	<u>Dec. 25, 2016</u>
<b><u>Financial Highlights</u></b>				
Total revenues	\$ <u>22,083,000</u>	\$ <u>19,937,000</u>	\$ <u>84,607,000</u>	\$ <u>77,366,000</u>
Income from operations (a)	\$ <u>5,370,000</u>	\$ <u>4,754,000</u>	\$ <u>22,554,000</u>	\$ <u>21,609,000</u>
Net (loss) income	\$ <u>(3,779,000)</u>	\$ <u>699,000</u>	\$ <u>2,263,000</u>	\$ <u>6,756,000</u>
(Loss) income per share:				
Basic	\$ <u>(0.90)</u>	\$ <u>0.17</u>	\$ <u>0.54</u>	\$ <u>1.62</u>
Diluted (b)	\$ <u>(0.90)</u>	\$ <u>0.17</u>	\$ <u>0.54</u>	\$ <u>1.61</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,185,000</u>	<u>4,175,000</u>	<u>4,180,000</u>	<u>4,171,000</u>
Diluted (b)	<u>4,185,000</u>	<u>4,209,000</u>	<u>4,219,000</u>	<u>4,202,000</u>

**Select Segment Information**

Revenues

Branded product program	\$14,674,000	\$12,868,000	\$50,741,000	\$44,563,000
Product licensing	4,228,000	3,990,000	17,393,000	15,602,000
Restaurant operations	3,181,000	3,079,000	16,473,000	17,201,000
Corporate	-	-	-	-
Total Revenues	<u>\$22,083,000</u>	<u>\$19,937,000</u>	<u>\$84,607,000</u>	<u>\$77,366,000</u>

Income from operations (c)

Branded product program	\$2,924,000	\$2,886,000	\$7,888,000	\$8,336,000
Product licensing	4,182,000	3,944,000	17,257,000	15,465,000
Restaurant operations	(21,000)	48,000	3,209,000	4,083,000
Corporate (d)	<u>(1,715,000)</u>	<u>(2,124,000)</u>	<u>(5,800,000)</u>	<u>(6,275,000)</u>
Income from operations (c)	<u>\$ 5,370,000</u>	<u>\$4,754,000</u>	<u>\$22,554,000</u>	<u>\$21,609,000</u>

- (a) Excludes loss on debt extinguishment, interest expense, interest income, and other income, net.
- (b) Options to purchase 47,000 shares of common stock were excluded from the computation of diluted earnings per share as the effect would have been anti-dilutive for the thirteen week period ended December 24, 2017.
- (c) Excludes loss on debt extinguishment, 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.
- (d) 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>Thirty-nine weeks ended</u>	
	<u>Dec. 24, 2017</u>	<u>Dec. 25, 2016</u>	<u>Dec. 24, 2017</u>	<u>Dec. 25, 2016</u>
	(unaudited)		(unaudited)	
EBITDA				
Net (Loss) Income	\$ (3,779,000)	\$ 699,000	\$ 2,263,000	\$ 6,756,000
Interest Expense	3,650,000	3,663,000	10,976,000	11,002,000
(Benefit) Provision for income taxes	(3,307,000)	448,000	621,000	3,986,000
Depreciation and amortization	<u>320,000</u>	<u>309,000</u>	<u>1,055,000</u>	<u>1,005,000</u>
EBITDA	<u>\$ (3,116,000)</u>	<u>\$ 5,119,000</u>	<u>\$ 14,915,000</u>	<u>\$ 22,749,000</u>
<u>Adjusted EBITDA</u>				
EBITDA	\$ (3,116,000)	\$ 5,119,000	\$ 14,915,000	\$ 22,749,000
Loss on debt extinguishment	8,872,000	-	8,872,000	-
Stock-based compensation	<u>99,000</u>	<u>136,000</u>	<u>298,000</u>	<u>482,000</u>
Adjusted EBITDA	<u>\$ 5,855,000</u>	<u>\$ 5,255,000</u>	<u>\$ 24,085,000</u>	<u>\$ 23,231,000</u>

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

	<u>Dec. 24, 2017</u>	<u>March 26, 2017</u>
	Unaudited	
Assets		
Current assets	\$ 82,919,000	\$ 67,535,000
Property and equipment, net of accumulated depreciation	8,276,000	8,844,000
Intangible assets	1,448,000	1,448,000
Other assets	<u>293,000</u>	<u>298,000</u>
Total assets	<u>\$ 92,936,000</u>	<u>\$ 78,125,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 31,110,000	\$ 10,772,000
Long-term debt, net of unamortized debt issuance costs	144,626,000	131,475,000
Other liabilities	1,484,000	1,555,000
Deferred income taxes	751,000	814,000
Stockholders' (deficit)	<u>(85,035,000)</u>	<u>(66,491,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 92,936,000</u>	<u>\$ 78,125,000</u>