

## *To Our Shareholders*

On August 3, 2011, we reported results for our first quarter of the 2012 fiscal year that ended June 26, 2011.

For the fiscal quarter ended June 26, 2011:

- Net income was \$1,596,000 or \$0.31 per diluted share as compared to \$1,660,000 or \$0.29 per diluted share for the thirteen weeks ended June 27, 2010;
- Earnings before income taxes increased by 2.9% to \$2,591,000 as compared to \$2,517,000 for the thirteen weeks June 27, 2010;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$1,666,000 or \$0.32 per diluted share; and
- Revenues increased by 14.5% to \$17,897,000, as compared to \$15,626,000 during the thirteen weeks ended June 27, 2010.

Sales from our Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 29.2% to \$10,140,000 during the thirteen weeks ended June 26, 2011 as compared to sales of \$7,850,000 during the thirteen weeks ended June 27, 2010.

Retail license royalties increased by 9.3% or \$168,000 to \$1,967,000 during the thirteen weeks ended June 26, 2011 as compared to \$1,799,000 during the thirteen weeks ended June 27, 2010.

Revenues from franchise operations increased by 14.3% or \$180,000 to \$1,435,000 during the thirteen weeks ended June 26, 2011 as compared to \$1,255,000 during the thirteen weeks ended June 27, 2010. Fourteen new franchised units were opened during the thirteen weeks ended June 26, 2011, including our first restaurant in Alberta, Canada, third restaurant in Beijing, China, fourth restaurant in the Dominican Republic and fifteenth restaurant in Kuwait.

Gross profit was 18.7% of sales as compared to 23.2% of sales during the thirteen weeks ended June 27, 2010 due primarily to unusually high beef costs.

Our effective tax rate of 38.4% is approximately 4.4% higher than for the thirteen weeks ended June 27, 2010 when we resolved uncertain tax positions, reversing \$79,000 of prior period accruals.

During the thirteen weeks ended June 26, 2011, we continued our stock repurchase programs, acquiring 31,569 shares at a total cost of approximately \$573,000.

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 \$67,000 or \$0.01 per share, net of tax, during the thirteen weeks ended June 26, 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"), we have also provided 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 first quarter, that the Company believes impacts the comparability of its results of operations.

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

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 269 units, comprised of 264 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](http://www.nathansfamous.com).

Sincerely,

Eric Gatoff  
Chief Executive Officer

Wayne Norbitz  
President  
and Chief Operating Officer

**Nathan's Famous, Inc.**  
**Financial Highlights**

Thirteen weeks ended

June 26, 2011                      June 27, 2010  
(unaudited)

Total revenues	<u>\$ 17,897,000</u>	<u>\$ 15,626,000</u>
Net income	<u>\$ 1,596,000</u>	<u>\$ 1,660,000</u>
Basic income per share		
Net income	<u>\$ 0.31</u>	<u>\$ 0.30</u>
Diluted income per share		
Net income	<u>\$ 0.31</u>	<u>\$ 0.29</u>
Weighted-average shares used in computing income per share		
Basic	<u>5,078,000</u>	<u>5,594,000</u>
Diluted	<u>5,201,000</u>	<u>5,694,000</u>

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

Thirteen weeks ended

June 26, 2011                      June 27, 2010  
(unaudited)

<b><u>NET INCOME</u></b>		
Net income	\$ 1,596,000	\$ 1,660,000
Legal expense (a), (net of tax)	3,000	63,000
Interest expense (b), (net of tax)	<u>67,000</u>	<u>-</u>
Non-GAAP income	<u>\$ 1,666,000</u>	<u>\$ 1,723,000</u>
<b><u>DILUTED INCOME PER SHARE</u></b>		
Net income	\$ 0.31	\$ 0.29
Legal expense (a), (net of tax)	-	0.01
Interest expense (b), (net of tax)	<u>0.01</u>	<u>-</u>
Non-GAAP income per share	<u>\$ 0.32</u>	<u>\$ 0.30</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>June 26, 2011</u> (Unaudited)	<u>March 27, 2011</u>
Assets		
Current assets	\$ 46,585,000	\$ 44,419,000
Property and equipment	5,797,000	5,786,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>1,295,000</u>	<u>1,305,000</u>
Total assets	<u>\$ 55,125,000</u>	<u>\$ 52,958,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 13,895,000	\$ 12,965,000
Other long-term obligations	1,981,000	1,915,000
Stockholders' equity	<u>39,249,000</u>	<u>38,078,000</u>
Total liabilities and stockholders' equity	<u>\$ 55,125,000</u>	<u>\$ 52,958,000</u>