

To Our Shareholders

On February 6, 2014, we reported results for our third quarter of the 2014 fiscal year that ended December 29, 2013.

For the fiscal quarter ended December 29, 2013:

- Net income increased by 4.2% to \$1,107,000 as compared to \$1,062,000 for the thirteen weeks ended December 23, 2012;
- Earnings per diluted share increased by 4.3% to \$0.24 as compared to \$0.23 for the thirteen weeks ended December 23, 2012; and
- Revenues increased by 23.3% to \$18,533,000, as compared to \$15,025,000 during the thirteen weeks ended December 23, 2012.

For the thirty-nine weeks ended December 29, 2013:

- Net income increased by 20.2% to \$7,109,000 as compared to \$5,913,000 for the thirty-nine weeks ended December 23, 2012;
- Earnings per diluted share increased by 19.4% to \$1.54 as compared to \$1.29 for the thirty-nine weeks ended December 23, 2012; and
- Revenues increased by 16.0% to \$65,596,000, as compared to \$56,567,000 during the thirty-nine weeks ended December 23, 2012.

In March 2014, our new license agreement will commence with John Morrell & Co. replacing SMG, Inc. as Nathan's exclusive licensee to manufacture and sell branded hot dog, sausage and corned beef products at retail. As previously disclosed, we believe the financial terms of the John Morrell agreement are more advantageous to us compared to the financial terms of the current SMG agreement. These improved terms include royalties of 10.8% of net sales, compared to approximately 4.5% of net sales under the SMG agreement, and significant minimum annual royalty guarantees. Under the John Morrell Agreement, the minimum guarantee for the first year is \$10 Million, and we believe that actual royalties should exceed the minimum. Royalties earned under the SMG agreement over the last 12 months were \$5,346,000.

License royalties pursuant to all license agreements were \$6,242,000 during the thirty-nine weeks ended December 29, 2013, as compared to \$6,104,000 during the thirty-nine weeks ended December 23, 2012.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 20.3% to \$40,256,000 during the thirty-nine weeks ended December 29, 2013, as compared to sales of \$33,464,000 during the thirty-nine weeks ended December 23, 2012. Currently, products are being distributed throughout all 50 states in channels to include convenience stores, travel centers, entertainment venues, colleges and universities and vending.

Sales from the Company-owned restaurants were \$11,536,000 during the thirty-nine weeks ended December 29, 2013 as compared to \$12,378,000 during the thirty-nine weeks ended December 23, 2012; the decline in sales was due to the following: (1) Our Flagship Coney Island restaurant, which was severely damaged by Superstorm Sandy, reopened on May 20, 2013, losing eight (8) weeks of the spring season during the current fiscal year, compared to the post-Sandy closure of eight (8) weeks in November and December 2012; and (2) The temporary closing of our Yonkers restaurant for redevelopment from December 2012 until reopening in November 2013. We estimate these two factors negatively impacted the sales comparison by approximately \$1,606,000.

Sales at our two Coney Island locations were approximately \$876,000 higher in the aggregate than the comparative weeks of operations during the fiscal period ended December 29, 2013. Sales at our seasonal Boardwalk restaurant in Coney Island were approximately 16.8% higher during the 30 weeks of operations during the thirty-nine weeks ended December 29, 2013 as compared to December 23, 2012.

Gross profit decreased to 20.1% of sales during the thirty-nine weeks ended December 29, 2013, as compared to 22.1% of sales during the thirty-nine weeks ended December 23, 2012 due primarily to the impact of the higher cost of beef on our Branded Product Program. During fiscal 2014 period, the cost of our beef products were approximately 6.1% higher than the fiscal 2013 period due primarily to an unusual increase in the beef trimmings markets during August and September 2013. We have recently begun taking steps to pass the recent cost increases on through price increases but there can be no assurance we will be successful in doing so.

Revenues from franchise operations were \$4,248,000 during the thirty-nine weeks ended December 29, 2013, as compared to \$4,247,000 during the thirty-nine weeks ended December 23, 2012. Twenty-six new franchised units were opened during the thirty-nine weeks ended December 29, 2013, including six Branded Menu Program outlets and eight locations in Moscow.

Nathan's executed a Master Development Agreement for the development of Nathan's restaurants and retail distribution throughout Costa Rica.

Nathan's realized a gain of \$2,801,000 during the thirty-nine weeks ended December 29, 2013 in connection with the settlement of its flood damage and contents loss insurance claims relating to Superstorm Sandy.

Nathan's recognized an impairment charge of \$400,000 in connection with a long-term investment.

Nathan's final appeal in the SMG litigation was denied. As a result, the judgment of \$4,910,000 and all post-judgment interest of \$1,099,000, was satisfied on July 24, 2013. As previously described, we accrued the expense of the judgment in October 2010, and have been accruing the expenses for post-judgment interest on a monthly basis throughout the appeals process.

In October, 2013, Nathan's was ranked #55 on the Forbes list of the Best Small Companies in America and was listed as the Best Small Company in New York State.

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, the Cayman Islands and nine foreign countries through its restaurant system, foodservice sales programs and product licensing activities. The Nathan's restaurant system currently consists of 313 units, comprised of 308 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.

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. 29, 2013</u>	<u>Dec.. 23, 2012</u>	<u>Dec. 29, 2013</u>	<u>Dec. 23, 2012</u>
	(unaudited)		(unaudited)	
Total revenues	<u>\$ 18,533,000</u>	<u>\$ 15,025,000</u>	<u>\$ 65,596,000</u>	<u>\$ 56,567,000</u>
Net income	<u>\$ 1,107,000</u>	<u>\$ 1,062,000</u>	<u>\$ 7,109,000</u>	<u>\$ 5,913,000</u>
Basic income per share				
Net income	<u>\$ 0.25</u>	<u>\$ 0.24</u>	<u>\$ 1.60</u>	<u>\$ 1.35</u>
Diluted income per share				
Net income	<u>\$ 0.24</u>	<u>\$ 0.23</u>	<u>\$ 1.54</u>	<u>\$ 1.29</u>
Weighted-average shares used in computing income per share				
Basic	<u>4,466,000</u>	<u>4,414,000</u>	<u>4,447,000</u>	<u>4,396,000</u>
Diluted	<u>4,622,000</u>	<u>4,612,000</u>	<u>4,609,000</u>	<u>4,582,000</u>

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

	<u>Dec. 29, 2013</u>	<u>March 31, 2013</u>
	(Unaudited)	
Assets		
Current assets	\$ 41,882,000	\$ 40,988,000
Property and equipment	9,172,000	5,788,000
Long-term investment	100,000	500,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>463,000</u>	<u>938,000</u>
Total assets	<u>\$ 53,065,000</u>	<u>\$ 49,662,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 7,644,000	\$ 13,463,000
Other long-term obligations	2,050,000	2,051,000
Deferred income taxes	575,000	-
Stockholders' equity	<u>42,796,000</u>	<u>34,148,000</u>
Total liabilities and stockholders' equity	<u>\$ 53,065,000</u>	<u>\$ 49,662,000</u>