

To Our Shareholders

On February 1, 2013, we reported results for the third quarter of our 2013 fiscal year that ended December 23, 2012.

For the fiscal quarter ended December 23, 2012:

- Net income was \$1,062,000 as compared to \$1,211,000 for the thirteen weeks ended December 25, 2011;
- Earnings per diluted share was \$0.23 as compared to \$0.24 for the thirteen weeks ended December 25, 2011;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$1,130,000 or \$0.24 per diluted share, as compared to \$1,284,000 or \$0.25 per diluted share for the thirteen weeks ended December 25, 2011; and
- Revenues increased 1.5% to \$15,025,000, as compared to \$14,800,000 during the thirteen weeks ended December 25, 2011.

For the thirty-nine weeks ended December 23, 2012:

- Net income increased 16.5% to \$5,913,000 as compared to \$5,076,000 for the thirty-nine weeks ended December 25, 2011;
- Earnings per diluted share increased 31.6% to \$1.29 as compared to \$0.98 for the thirty-nine weeks ended December 25, 2011;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$6,115,000 or \$1.33 per diluted share, as compared to \$5,292,000 or \$1.02 per diluted share for the thirty-nine weeks ended December 25, 2011; and
- Revenues increased 9.2% to \$56,567,000, as compared to \$51,815,000 during the thirty-nine weeks ended December 25, 2011.

On October 29, 2012, Hurricane Sandy struck the Northeastern United States, which forced the closing of all of the Company-owned restaurants. Seventy-eight franchised restaurants, including 18 Branded Menu locations, also closed for varying periods of time, two of which remain closed. Our flagship Coney Island restaurant and our new Boardwalk restaurant have been closed since the storm. Our Company-owned restaurant in Oceanside, New York was closed for approximately two weeks. The new Coney Island Boardwalk restaurant sustained minor damage and is anticipated to re-open in March 2013. The Coney Island restaurant incurred significant damage. We are seeking to re-open the restaurant during the spring of 2013. On November 25, 2012, we closed the Company-owned restaurant in Yonkers, New York which was demolished as a part of a redevelopment of the property which will include a new Nathan's Company-owned restaurant that we anticipate opening in December 2013.

As previously disclosed, Nathan's entered into a definitive and binding letter agreement with John Morrell & Co, a subsidiary of Smithfield Foods, Inc. (NYSE:SFD) to become Nathan's exclusive licensee to manufacture and sell branded hot dogs sausage and corned beef products at retail. The agreement begins on March 2, 2014 for a term of 18 years providing royalties of 10.8% of net sales, subject to annual minimum royalties which start at \$10 million in the first year and increase annually throughout the term.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased 12.1% to \$33,464,000 during the thirty-nine weeks ended December 23, 2012, as compared to sales of \$29,843,000 during the thirty-nine weeks ended December 25, 2011.

Sales and direct operating cash flows from the five Company-owned restaurants were \$12,378,000 and \$3,153,000, respectively, during the thirty-nine weeks ended December 23, 2012 as compared to \$11,218,000 and \$2,428,000, respectively during the thirty-nine weeks ended December 25, 2011.

Gross profit increased to 22.1% of sales during the thirty-nine weeks ended December 23, 2012, as compared to 20.7% of sales during the thirty-nine weeks ended December 25, 2011 due primarily to improved margins from our Branded Product Program.

Retail license royalties increased 15.0% or \$797,000 to \$6,104,000 during the thirty-nine weeks ended December 23, 2012, as compared to \$5,307,000 during the thirty-nine weeks ended December 25, 2011.

Revenues from franchise operations were \$4,247,000 during the during the thirty-nine weeks ended December 23, 2012, as compared to \$4,265,000 during the thirty-nine weeks ended December 25, 2011. Twenty-nine new franchised units were

opened during the thirty-nine weeks ended December 23, 2012, including our first two mobile trucks, our first location in Turkey, our sixth restaurant in the Dominican Republic and fifteen Branded Menu Program outlets.

Nathan's executed two Master Development Agreements comprising the Republic of Turkey, including the Turkish Republic of Northern Cyprus and Mexico City, Mexico.

In April 2012, we opened our newly relocated seasonal restaurant on the Boardwalk in Coney Island, New York.

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. On December 11, 2012, the Court heard oral arguments. On January 25, 2013, the Appellate Court affirmed the trial court's ruling. Nathan's is currently evaluating its options to further appeal this decision. 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 continued to make these deposits and recorded interest expense of approximately \$200,000, net of tax, during each of the thirty-nine week periods ended December 23, 2012 and December 25, 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"), the Company has provided its 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 second quarter, that the Company believes impacts the comparability of its results of operations.

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

About Nathan's Famous

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 seven foreign countries through its restaurant system, foodservice sales programs and product licensing activities. The Nathan's restaurant system currently consists of 308 units, comprised of 303 franchised units and five company-owned units (including two units temporarily closed due to Hurricane Sandy and one restaurant closed for redevelopment). 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. 23, 2012</u>	<u>Dec. 25, 2011</u>	<u>Dec. 23, 2012</u>	<u>Dec. 25, 2011</u>
	(unaudited)		(unaudited)	
Total revenues	\$ <u>15,025,000</u>	\$ <u>14,800,000</u>	\$ <u>56,567,000</u>	\$ <u>51,815,000</u>
Net income	\$ <u>1,062,000</u>	\$ <u>1,211,000</u>	\$ <u>5,913,000</u>	\$ <u>5,076,000</u>
Basic income per share				
Net income	\$ <u>0.24</u>	\$ <u>0.24</u>	\$ <u>1.35</u>	\$ <u>1.01</u>
Diluted income per share				
Net income	\$ <u>0.23</u>	\$ <u>0.24</u>	\$ <u>1.29</u>	\$ <u>0.98</u>
Weighted-average shares used in computing income per share				
Basic	<u>4,414,000</u>	<u>4,964,000</u>	<u>4,396,000</u>	<u>5,022,000</u>
Diluted	<u>4,612,000</u>	<u>5,113,000</u>	<u>4,582,000</u>	<u>5,159,000</u>

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

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Dec. 23, 2012</u>	<u>Dec. 25, 2011</u>	<u>Dec. 23, 2012</u>	<u>Dec. 25, 2011</u>
	(unaudited)		(unaudited)	
<u>NET INCOME</u>				
Net income	\$ 1,062,000	\$ 1,211,000	\$ 5,913,000	\$ 5,076,000
Legal expense (a), (net of tax)	1,000	6,000	1,000	16,000
Interest expense (b), (net of tax)	<u>67,000</u>	<u>67,000</u>	<u>201,000</u>	<u>200,000</u>
Non-GAAP income	\$ <u>1,130,000</u>	\$ <u>1,284,000</u>	\$ <u>6,115,000</u>	\$ <u>5,292,000</u>
<u>DILUTED INCOME PER SHARE</u>				
Net income	\$ 0.23	\$ 0.24	\$ 1.29	\$ 0.98
Legal expense (a), (net of tax)	-	-	-	-
Interest expense (b), (net of tax)	<u>0.01</u>	<u>0.01</u>	<u>0.04</u>	<u>0.04</u>
Non-GAAP income per share	\$ <u>0.24</u>	\$ <u>0.25</u>	\$ <u>1.33</u>	\$ <u>1.02</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>Dec. 23, 2012</u> (Unaudited)	<u>March 25, 2012</u>
Assets		
Current assets	\$ 41,563,000	\$ 35,550,000
Property and equipment	5,296,000	6,179,000
Cost-method investment	500,000	-
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>1,218,000</u>	<u>1,343,000</u>
Total assets	<u>\$ 50,025,000</u>	<u>\$ 44,520,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 12,824,000	\$ 13,561,000
Other long-term obligations	2,226,000	2,122,000
Stockholders' equity	<u>34,975,000</u>	<u>28,837,000</u>
Total liabilities and stockholders' equity	<u>\$ 50,025,000</u>	<u>\$ 44,520,000</u>