

To Our Shareholders

On August 1, 2012, we reported results for our first quarter of the 2013 fiscal year that ended June 24, 2012.

For the fiscal quarter ended June 24, 2012:

- Net income increased by 25.7% to \$2,006,000 as compared to \$1,596,000 for the thirteen weeks ended June 26, 2011;
- Earnings per diluted share increased by 41.9% to \$0.44 as compared to \$0.31 for the thirteen weeks ended June 26, 2011;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$2,073,000 or \$0.46 per diluted share, as compared to \$1,666,000 or \$0.32 per diluted share for the thirteen weeks ended June 26, 2011; and
- Revenues increased by 12.8% to \$20,182,000, as compared to \$17,897,000 during the thirteen weeks ended June 26, 2011.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 16.4% to \$11,806,000 during the thirteen weeks ended June 26, 2011, as compared to sales of \$10,140,000 during the thirteen weeks ended June 26, 2011.

Gross profit increased to 20.8% of sales during the thirteen weeks ended June 24, 2012, as compared to 18.7% of sales during the thirteen weeks ended June 26, 2011 due primarily to improved margins from our Branded Product Program.

Retail license royalties increased by 13.3% or \$262,000 to \$2,229,000 during the thirteen weeks ended June 24, 2012, as compared to \$1,967,000 during the thirteen weeks ended June 26, 2011.

Revenues from franchise operations were \$1,430,000 during the thirteen weeks ended June 24, 2012, as compared to \$1,435,000 during the thirteen weeks ended June 26, 2011. Thirteen new franchised units were opened during the thirteen weeks ended June 24, 2012, including eight Branded Menu Program outlets.

We signed two Master Development Agreements comprising the Republic of Turkey, including the Turkish Republic of Northern Cyprus and Mexico City, Mexico.

Sales and direct operating cash flows from our five Company-owned restaurants were \$4,588,000 and \$1,138,000, respectively during the thirteen weeks ended June 24, 2012 as compared to \$4,012,000 and \$945,000, respectively during the thirteen weeks ended June 26, 2011.

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

As 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 continued to make these deposits and recorded interest expense of \$67,000, net of tax, during each of the thirteen week periods ended June 24, 2012 and 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"), 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 first 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.

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 307 units, comprised of 302 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

Thirteen weeks ended

June 24, 2012 June 26, 2011
(unaudited)

Total revenues	<u>\$ 20,182,000</u>	<u>\$ 17,897,000</u>
Net income	<u>\$ 2,006,000</u>	<u>\$ 1,596,000</u>
Basic income per share		
Net income	<u>\$ 0.46</u>	<u>\$ 0.31</u>
Diluted income per share		
Net income	<u>\$ 0.44</u>	<u>\$ 0.31</u>
Weighted-average shares used in computing income per share		
Basic	<u>4,368,000</u>	<u>5,078,000</u>
Diluted	<u>4,531,000</u>	<u>5,201,000</u>

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

Thirteen weeks ended

June 26, 2011 June 26, 2011
(unaudited)

<u>NET INCOME</u>		
Net income	\$ 2,006,000	\$ 1,596,000
Legal expense (a), (net of tax)	-	3,000
Interest expense (b), (net of tax)	<u>67,000</u>	<u>67,000</u>
Non-GAAP income	<u>\$ 2,073,000</u>	<u>\$ 1,666,000</u>
<u>DILUTED INCOME PER SHARE</u>		
Net income	\$ 0.44	\$ 0.31
Legal expense (a), (net of tax)	-	-
Interest expense (b), (net of tax)	<u>0.02</u>	<u>0.01</u>
Non-GAAP income per share	<u>\$ 0.46</u>	<u>\$ 0.32</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 24, 2012</u> (Unaudited)	<u>March 25, 2012</u>
Assets		
Current assets	\$ 37,913,000	\$ 35,550,000
Property and equipment	5,997,000	6,179,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>1,198,000</u>	<u>1,343,000</u>
Total assets	<u>\$ 46,556,000</u>	<u>\$ 44,520,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 13,316,000	\$ 13,561,000
Other long-term obligations	2,146,000	2,122,000
Stockholders' equity	<u>31,094,000</u>	<u>28,837,000</u>
Total liabilities and stockholders' equity	<u>\$ 46,556,000</u>	<u>\$ 44,520,000</u>