

## *To Our Shareholders*

On February 1, 2019, we reported results for the third quarter of our 2019 fiscal year that ended December 23, 2018.

For the fiscal quarter ended December 23, 2018:

- Revenues were \$20,222,000, as compared to \$22,021,000 during the thirteen weeks ended December 24, 2017;
- Adjusted EBITDA, as subsequently defined, was \$16,306,000, as compared to \$5,855,000 for the thirteen weeks ended December 24, 2017;
- Income before provision for income taxes was \$13,349,000, as compared to a loss before benefit for income taxes of \$7,086,000 for the thirteen weeks ended December 24, 2017;
- Net income was \$9,722,000, as compared to a net loss of \$3,779,000 for the thirteen weeks ended December 24, 2017;
- Earnings per diluted share were \$2.30 per share, as compared to a loss per diluted share of \$0.90 per share for the thirteen weeks ended December 24, 2017;
- On October 23, 2018, we sold our restaurant in Bay Ridge, Brooklyn and recognized a gain of \$10,821,000 or \$7,881,000, net of tax, or \$1.87 per diluted share;
- In connection with our November 2017 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;
- Benefit for income taxes for the thirteen weeks ended December 24, 2017 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; and
- Excluding the gain from the sale of restaurant, loss on debt extinguishment and revaluation of deferred tax liabilities, net income would have been \$1,841,000 or \$0.44 per diluted share as compared to net income of \$1,051,000 or \$0.25 per diluted share.

For the thirty-nine weeks ended December 23, 2018:

- Revenues were \$79,720,000, as compared to \$84,295,000 during the thirty-nine weeks ended December 24, 2017;
- Adjusted EBITDA, as subsequently defined, was \$35,377,000, as compared to \$24,085,000 for the thirty-nine weeks ended December 24, 2017;
- Income before provision for income taxes was \$26,331,000, as compared to \$2,884,000 for the thirty-nine weeks ended December 24, 2017;
- Net income was \$19,001,000, as compared to \$2,263,000 for the thirty-nine weeks ended December 24, 2017;
- Earnings per diluted share was \$4.50 per share, as compared to \$0.54 per share for the thirty-nine weeks ended December 24, 2017;
- On October 23, 2018, we sold our restaurant in Bay Ridge, Brooklyn and recognized a gain of \$10,821,000 or \$7,881,000, net of tax, or \$1.87 per diluted share;
- In connection with our November 2017 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;
- Provision for income taxes for the thirty-nine weeks ended December 24, 2017 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; and
- Excluding the gain from the sale of restaurant, loss on debt extinguishment and revaluation of deferred tax liabilities, net income would have been \$11,120,000 or \$2.63 per diluted share as compared to net income of \$7,093,000 or \$1.68 per diluted share.

License royalties increased to \$18,160,000 during the thirty-nine weeks ended December 23, 2018, as compared to \$17,393,000 during the thirty-nine weeks ended December 24, 2017. During the thirty-nine weeks ended December 23, 2018, total royalties earned under the John Morrell & Co., agreement increased 4.3% to \$16,536,000, as compared to \$15,853,000 of royalties earned during the thirty-nine weeks ended December 24, 2017.

In the Branded Product Program, which features the sale of Nathan's hot dogs to the foodservice industry, income from operations decreased by approximately \$163,000 to \$7,725,000 for the thirty-nine weeks ended December 23, 2018, as compared to \$7,888,000 for the thirty-nine weeks ended December 24, 2017. Sales were \$44,308,000 in the current period, compared to sales of \$50,741,000 during the prior-year period, while the volume of hot dogs sold by the Company decreased 7.6%. However, the sales and volume declines were mostly related to the use of a new re-distributor to temporarily service certain of our regular distributor customers. Excluding the effects of the re-distributors' purchases in both years, we estimate that customer shipments, increased by approximately 1.5% during the fiscal 2019 period. Our average selling price, which is partially correlated to the beef markets, decreased by approximately 5.5% compared to the year-earlier period.

Sales from Company-operated restaurants were \$12,140,000 during the thirty-nine weeks ended December 23, 2018, as compared to \$12,586,000 during the thirty-nine weeks ended December 24, 2017. Sales were negatively affected, especially at our two Coney Island locations, by exceptionally unfavorable weather conditions in the Northeastern United States, during April and the summer.

Revenues from franchise operations were \$3,254,000 during the thirty-nine weeks ended December 23, 2018, as compared to \$3,575,000 during the thirty-nine weeks ended December 24, 2017. Total royalties were \$2,906,000 in the fiscal 2019 period as compared to \$3,293,000 in the fiscal 2018 period. Total franchise fee income was \$348,000 during the thirty-nine weeks ended December 23, 2018, as compared to \$282,000 during the thirty-nine weeks ended December 24, 2017. Twelve new franchised outlets opened during the thirty-nine weeks ended December 23, 2018, including five international locations, and four Branded Menu Program outlets.

During the thirty-nine weeks ended December 23, 2018, we recorded Advertising Fund revenue and expense in the amount of \$1,858,000 in connection with the adoption of ASC 606.

In October 2018, Nathan's sold its restaurant, including land, in Bay Ridge, Brooklyn, New York and recognized a gain on the sale of \$10,821,000 or \$7,881,000 net of tax.

In November 2017, Nathan's refinanced its then-outstanding \$135.0 million 10.000% Senior Secured Notes due 2020 by issuing \$150.0 million 6.625% Senior Secured Notes due 2025. In connection with the refinancing, the Company recorded a loss on extinguishment of debt of \$8,872,000 or \$5,266,000, net of tax. Nathan's lowered its interest expense by approximately \$3,025,000 during the thirty-nine weeks ended December 23, 2018 as compared to the thirty-nine weeks ended December 24, 2017.

On December 14, 2018, we paid the \$0.25 per share regular cash dividend that was declared by the Board of Directors effective November 2, 2018 to shareholders of record at the close of business on December 3, 2018.

Effective February 1, 2019, the Board of Directors declared its quarterly cash dividend of \$0.25 per share payable on March 22, 2019 to shareholders of record at the close of business on March 11, 2019.

### **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 for income taxes and (iii) depreciation and amortization expense. The Company has also provided Adjusted EBITDA excluding loss on extinguishment of debt and 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 fifteen 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. 23, 2018</u>	<u>Dec. 24, 2017</u>	<u>Dec. 23, 2018</u>	<u>Dec. 24, 2017</u>
<b><u>Financial Highlights</u></b>				
Total revenues	\$ <u>20,222,000</u>	\$ <u>22,021,000</u>	\$ <u>79,720,000</u>	\$ <u>84,295,000</u>
Income from operations (a)	\$ <u>4,896,000</u>	\$ <u>5,370,000</u>	\$ <u>22,463,000</u>	\$ <u>22,554,000</u>
Net income	\$ <u>9,722,000</u>	\$ <u>(3,779,000)</u>	\$ <u>19,001,000</u>	\$ <u>2,263,000</u>
Income per share:				
Basic	\$ <u>2.32</u>	\$ <u>(0.90)</u>	\$ <u>4.54</u>	\$ <u>0.54</u>
Diluted	\$ <u>2.30</u>	\$ <u>(0.90)</u>	\$ <u>4.50</u>	\$ <u>0.54</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,187,000</u>	<u>4,185,000</u>	<u>4,187,000</u>	<u>4,180,000</u>
Diluted	<u>4,221,000</u>	<u>4,185,000</u>	<u>4,226,000</u>	<u>4,219,000</u>

**Select Segment Information**

<u>Revenues</u>				
Branded product program	\$12,453,000	\$14,674,000	\$44,308,000	\$50,741,000
Product licensing	4,316,000	4,228,000	18,160,000	17,393,000
Restaurant operations	2,862,000	3,119,000	15,394,000	16,161,000
Corporate	<u>591,000</u>	<u>-</u>	<u>1,858,000</u>	<u>-</u>
Total Revenues	<u>\$ 20,222,000</u>	<u>\$22,021,000</u>	<u>\$79,720,000</u>	<u>\$84,295,000</u>
<u>Income from operations (b)</u>				
Branded product program	\$ 2,464,000	\$2,924,000	\$7,725,000	\$7,888,000
Product licensing	4,270,000	4,182,000	18,023,000	17,257,000
Restaurant operations	(112,000)	(21,000)	2,733,000	3,209,000
Corporate (c)	<u>(1,726,000)</u>	<u>(1,715,000)</u>	<u>(6,018,000)</u>	<u>(5,800,000)</u>
Income from operations (b)	<u>\$ 4,896,000</u>	<u>\$ 5,370,000</u>	<u>\$22,463,000</u>	<u>\$22,554,000</u>

- (a) Excludes interest expense, interest income, and other income, net.
- (b) Excludes 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.
- (c) 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. 23, 2018</u>	<u>Dec. 24, 2017</u>	<u>Dec. 23, 2018</u>	<u>Dec. 24, 2017</u>
	(unaudited)		(unaudited)	
EBITDA				
Net income (loss)	\$ 9,722,000	\$ ( 3,779,000)	\$ 19,001,000	\$ 2,263,000
Interest expense	2,650,000	3,650,000	7,951,000	10,976,000
Provision (benefit) for income taxes	3,627,000	(3,307,000)	7,330,000	621,000
Depreciation and amortization	<u>278,000</u>	<u>320,000</u>	<u>962,000</u>	<u>1,055,000</u>
EBITDA	<u>\$ 16,277,000</u>	<u>\$ (3,116,000)</u>	<u>\$ 35,244,000</u>	<u>\$ 14,915,000</u>
<u>Adjusted EBITDA</u>				
EBITDA	\$ 16,277,000	\$ (3,116,000)	\$ 35,244,000	\$ 14,915,000
Loss on debt extinguishment	--	8,872,000	--	8,872,000
Stock-based compensation	<u>29,000</u>	<u>99,000</u>	<u>133,000</u>	<u>298,000</u>
Adjusted EBITDA	<u>\$ 16,306,000</u>	<u>\$ 5,855,000</u>	<u>\$ 35,377,000</u>	<u>\$ 24,085,000</u>

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

	<u>Dec. 23, 2018</u>	<u>March 25, 2018</u>
	<u>Unaudited</u>	
Assets		
Current assets	\$ 83,506,000	\$ 71,708,000
Property and equipment, net of accumulated depreciation	5,018,000	6,642,000
Intangible assets	1,448,000	1,448,000
Deferred income taxes	456,000	-
Long-term contractual accounts receivable	400,000	-
Other assets	<u>341,000</u>	<u>293,000</u>
Total assets	<u>\$ 91,169,000</u>	<u>\$ 80,091,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 12,833,000	\$ 18,006,000
Long-term debt, net of unamortized debt issuance costs	145,276,000	144,758,000
Other liabilities	1,377,000	1,355,000
Deferred franchise fees	3,300,000	238,000
Deferred income taxes	-	302,000
Stockholders' (deficit)	<u>(71,617,000)</u>	<u>(84,568,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 91,169,000</u>	<u>\$ 80,091,000</u>

