

To Our Shareholders

On February 5, 2016, we reported results for the third quarter of our 2016 fiscal year that ended December 27, 2015.

For the fiscal quarter ended December 27, 2015:

- Income from operations increased by 17.8% to \$4,435,000, as compared to \$3,765,000 during the thirteen weeks ended December 28, 2014;
- Adjusted EBITDA, as subsequently defined, increased by 12.6% to \$4,932,000 as compared to \$4,382,000 for the thirteen weeks ended December 28, 2014;
- Net income was \$432,000, as compared to \$2,241,000 for the thirteen weeks ended December 28, 2014;
- Earnings per diluted share were \$0.10 per share, as compared to \$0.49 per share for the thirteen weeks ended December 28, 2014; and
- Revenues were \$20,564,000, as compared to \$22,315,000 during the thirteen weeks ended December 28, 2014.

For the thirty-nine weeks ended December 27, 2015:

- Income from operations increased by 20.5% to \$20,477,000, as compared to \$16,991,000 during the thirty-nine weeks ended December 28, 2014;
- Adjusted EBITDA, as subsequently defined, increased by 17.2% to \$22,189,000 as compared to \$18,936,000 for the thirty-nine weeks ended December 28, 2014;
- Net income was \$5,589,000, as compared to \$10,166,000 for the thirty-nine weeks ended December 28, 2014;
- Earnings per diluted share were \$1.24 per share, as compared to \$2.21 per share for the thirty-nine weeks ended December 28, 2014; and
- Revenues were \$81,837,000, as compared to \$78,772,000 during the thirty-nine weeks ended December 28, 2014.

License royalties increased by 12.8% to \$15,406,000 during the thirty-nine weeks ended December 27, 2015, as compared to \$13,652,000 during the thirty-nine weeks ended December 28, 2014. During the thirty-nine weeks ended December 27, 2015, total royalties earned under the John Morrell & Co., agreement increased by 14.2% to \$14,091,000 as compared to \$12,342,000 of royalties earned during the thirty-nine weeks ended December 28, 2014. The increase is substantially attributable to significant organic growth in our consumer packaged hot dog business as a result of more effective sales, marketing and promotional strategies.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 3.5% to \$47,160,000 during the thirty-nine weeks ended December 27, 2015, as compared to sales of \$45,568,000 during the thirty-nine weeks ended December 28, 2014. This increase was primarily attributable to a 5.1% increase in the volume of products sold partially offset by lower average selling prices on the portion of our business where the selling price is calculated based upon the market price for beef, which has significantly declined during the past six months.

Sales from Company-operated restaurants were \$14,872,000 during the thirty-nine weeks ended December 27, 2015 as compared to \$14,497,000 during the thirty-nine weeks ended December 28, 2014 driven primarily from higher sales at both Coney Island locations.

Revenues from franchise operations were \$3,804,000 during the thirty-nine weeks ended December 27, 2015, as compared to \$4,473,000 during the thirty-nine weeks ended December 28, 2014. Total franchise fee income was \$388,000 during the thirty-nine weeks ended December 27, 2015 as compared to \$879,000 during the thirty-nine weeks ended December 28, 2014, primarily due to less international development fees. Thirty-five new franchised units were opened during the thirty-nine weeks ended December 27, 2015, including 11 international

locations, including locations in Russia and Costa Rica, and 16 Branded Menu Program outlets. Twenty-eight new franchised units were opened during the thirty-nine weeks ended December 28, 2014, including 10 international locations, including our first locations in Costa Rica and Malaysia and 14 Branded Menu Program outlets. We also recognized forfeited fees of \$58,000 during the fiscal 2016 period and \$120,000 during the fiscal 2015 period.

On March 10, 2015, Nathan's completed a financing of \$135.0 million aggregate principal amount of Senior Secured Notes. Nathan's incurred interest expense, including amortized debt issuance costs, totaling \$11,126,000 during the thirty-nine weeks ended December 27, 2015 on the Notes.

Nathan's also announced that its Board of Directors has authorized the purchase by Nathan's of up to an additional 200,000 shares of its common stock. Purchases may be made from time to time, depending on market conditions, in open market or privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases. After giving effect to the increase in the number of shares, an aggregate 266,074 shares remain available for purchase under Nathan's stock buy-back program. To date, pursuant to prior share repurchase programs authorized by the Board of Directors, Nathan's has purchased a total of 4,921,557 shares of common stock at a cost of approximately \$68,070,000.

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 (i) stock-based compensation and (ii) amortization of bond premium on the Company's available-for sale investments 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 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 currently distributes its products in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and nine foreign countries through its restaurant system, foodservice sales programs and product licensing activities. Last year, over 500 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.

Sincerely,

Eric Gatoff
Chief Executive Officer

Nathan's Famous, Inc. and Subsidiaries
Financial Highlights

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>Dec. 27, 2015</u>	<u>Dec. 28, 2014</u>	<u>Dec. 27, 2015</u>	<u>Dec. 28, 2014</u>
	(unaudited)		(unaudited)	
Total revenues	<u>\$ 20,564,000</u>	<u>\$ 22,315,000</u>	<u>\$ 81,837,000</u>	<u>\$ 78,772,000</u>
Income from operations (a)	<u>\$ 4,435,000</u>	<u>\$ 3,765,000</u>	<u>\$ 20,477,000</u>	<u>\$ 16,991,000</u>
Net income	<u>\$ 432,000</u>	<u>\$ 2,241,000</u>	<u>\$ 5,589,000</u>	<u>\$ 10,166,000</u>
Income per share:				
Basic	<u>\$ 0.10</u>	<u>\$ 0.50</u>	<u>\$ 1.25</u>	<u>\$ 2.27</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.49</u>	<u>\$ 1.24</u>	<u>\$ 2.21</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,408,000</u>	<u>4,482,000</u>	<u>4,474,000</u>	<u>4,475,000</u>
Diluted	<u>4,444,000</u>	<u>4,603,000</u>	<u>4,504,000</u>	<u>4,596,000</u>

(a) Excludes interest expense, interest income and other income, net.

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. 27, 2015</u>	<u>Dec. 28, 2014</u>	<u>Dec. 27, 2015</u>	<u>Dec. 28, 2014</u>
	(unaudited)		(unaudited)	
<u>EBITDA</u>				
Net Income	\$ 432,000	\$ 2,241,000	\$ 5,589,000	\$ 10,166,000
Interest expense	3,708,000	-0-	11,126,000	-0-
Provision for income taxes	316,000	1,562,000	3,886,000	7,027,000
Depreciation and amortization	<u>303,000</u>	<u>298,000</u>	<u>975,000</u>	<u>985,000</u>
EBITDA	<u>\$ 4,759,000</u>	<u>\$ 4,101,000</u>	<u>\$ 21,576,000</u>	<u>\$ 18,178,000</u>
<u>Adjusted EBITDA</u>				
EBITDA	\$ 4,759,000	\$ 4,101,000	\$ 21,576,000	\$ 18,178,000
Stock-based compensation	173,000	228,000	549,000	629,000
Amortization of bond premium (b)	<u>-0-</u>	<u>53,000</u>	<u>64,000</u>	<u>129,000</u>
Adjusted EBITDA	<u>\$ 4,932,000</u>	<u>\$ 4,382,000</u>	<u>\$ 22,189,000</u>	<u>\$ 18,936,000</u>

(b) Represents the premiums paid on our purchase of available-for-sale securities.

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

	<u>Dec. 27, 2015</u>	<u>March 29, 2015</u>
	<u>Unaudited</u>	
Assets		
Current assets	\$ 70,503,000	\$ 73,614,000
Property and equipment, net of accumulated depreciation	8,832,000	9,257,000
Intangible assets	1,448,000	1,448,000
Other assets	<u>213,000</u>	<u>347,000</u>
Total assets	<u>\$ 80,996,000</u>	<u>\$ 84,666,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 13,128,000	\$ 12,009,000
Long-term debt, net of unamortized debt discounts and issuance costs	129,969,000	129,140,000
Other long-term obligations	2,042,000	2,397,000
Deferred income taxes	1,018,000	1,028,000
Stockholders' (deficit)	<u>(65,161,000)</u>	<u>(59,908,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 80,996,000</u>	<u>\$ 84,666,000</u>