

## *To Our Shareholders*

On November 5, 2010, we reported our results for the second quarter of its 2011 fiscal year that ended September 26, 2010. Included in the results is a litigation accrual of \$2,914,000 recorded in the second quarter which is more fully described below.

For the quarter ended September 26, 2010:

- Net income was \$151,000 or \$0.03 per share, as compared to \$2,163,000 or \$0.39 per share for the quarter ended September 27, 2009;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$2,155,000 or \$0.38 per share; and
- Revenues increased by 9.3% to \$16,282,000, as compared to \$14,896,000 during the quarter ended September 27, 2009.

For the twenty-six weeks ended September 26, 2010:

- Net income was \$1,811,000 or \$0.32 per share, as compared to \$3,726,000 or \$0.65 per share for the twenty-six weeks ended September 27, 2009;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$3,879,000 or \$0.68 per share; and
- Revenues increased by 9.5% to \$31,908,000, as compared to \$29,129,000 during the twenty-six weeks ended September 27, 2009.

The trial in connection with Nathan's litigation against its licensee, SMG, Inc. ("SMG"), was concluded on October 13, 2010. The primary issue at trial was whether Nathan's is entitled to terminate its license agreement with SMG, and no determination on this issue has yet been made by the Court. The other issue at trial related to ancillary claims made by SMG regarding the manner in which Nathan's had profited from the sale of its proprietary seasonings to SMG, on which the Court granted SMG's motion for summary judgment. A hearing to determine the actual amount of damages relating to these seasoning claims is scheduled for November 22, 2010. Nathan's estimates that the amount of damages will be between \$2,914,000 and \$6,068,000. Nathan's is unable to determine the amount of damages within that range that the Court will award to SMG. Accordingly, and as previously reported, Nathan's recorded a litigation accrual of \$2,914,000 before tax, or \$1,745,000 or \$0.31 per share net of tax, as part of its results for the second quarter ended September 26, 2010. Nathan's also incurred incremental legal expenses in connection with the SMG litigation of \$325,000 and \$283,000 during the thirteen and twenty-six week periods ended September 26, 2010.

Although the Court granted SMG's motion for summary judgment on the seasoning claims, no formal judgment has yet been entered by the Court. Once formal judgment has been entered by the Court, Nathan's will evaluate its available alternatives, including an appeal.

### **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 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 expense 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 four foreign countries through its restaurant system, foodservice sales programs and retail licensing activities. The Nathan's restaurant system currently consists of 257 units, comprised of 252 franchised or licensed units and five company-owned units (including one seasonal unit). For additional information about Nathan's please visit our website at [www.nathansfamous.com](http://www.nathansfamous.com).

Sincerely,

Eric Gatoff  
Chief Executive Officer

Wayne Norbitz  
President  
and Chief Operating Officer

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Consolidated Statements of Earnings Data**

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
	(unaudited)		(unaudited)	
Total revenues	<u>\$ 16,282,000</u>	<u>\$ 14,896,000</u>	<u>\$ 31,908,000</u>	<u>\$ 29,128,000</u>
Net income	<u>\$ 151,000</u>	<u>\$ 2,163,000</u>	<u>\$ 1,811,000</u>	<u>\$ 3,726,000</u>
Basic income per share				
Net income	<u>\$ 0.03</u>	<u>\$ 0.40</u>	<u>\$ 0.32</u>	<u>\$ 0.68</u>
Diluted income per share				
Net income	<u>\$ 0.03</u>	<u>\$ 0.39</u>	<u>\$ 0.32</u>	<u>\$ 0.65</u>
Weighted-average shares used in computing income per share				
Basic	<u>5,573,000</u>	<u>5,420,000</u>	<u>5,584,000</u>	<u>5,516,000</u>
Diluted	<u>5,677,000</u>	<u>5,594,000</u>	<u>5,685,000</u>	<u>5,737,000</u>

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Reconciliation of GAAP and Non-GAAP Measures**

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>	<u>Sept. 26, 2010</u>	<u>Sept. 27, 2009</u>
	(unaudited)		(unaudited)	
Net income	\$ 151,000	\$ 2,163,000	\$ 1,811,000	\$ 3,726,000
Litigation accrual, (net of tax)	1,745,000	-	1,745,000	-
Legal expense (a), (net of tax)	<u>259,000</u>	<u>65,000</u>	<u>323,000</u>	<u>153,000</u>
Non-GAAP income	<u>\$2,155,000</u>	<u>\$ 2,228,000</u>	<u>\$ 3,879,000</u>	<u>\$ 3,879,000</u>
<b><u>DILUTED INCOME PER SHARE</u></b>				
Net income	\$ 0.03	\$ 0.39	\$ 0.32	\$ 0.65
Litigation accrual, (net of tax)	0.31	-	0.31	-
Legal expense (a), (net of tax)	<u>0.04</u>	<u>0.01</u>	<u>0.05</u>	<u>0.03</u>
Non-GAAP income per share	<u>\$ 0.38</u>	<u>\$ 0.40</u>	<u>\$ 0.68</u>	<u>\$ 0.68</u>

(a) Represents total legal expense incurred in connection with the SFG matter during the respective periods.

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Balance Sheet Data**

	<u>Sept. 26, 2010</u> (Unaudited)	<u>Mar. 28, 2010</u>
Assets		
Current assets	\$ 47,000,000	\$ 43,823,000
Property and equipment	5,665,000	5,467,000
Note receivable	1,122,000	1,175,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>1,508,000</u>	<u>1,461,000</u>
Total assets	<u>\$ 56,743,000</u>	<u>\$ 53,374,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 9,306,000	\$ 7,155,000
Other long-term obligations	1,984,000	1,907,000
Stockholders' equity	<u>45,453,000</u>	<u>44,312,000</u>
Total liabilities and stockholders' equity	<u>\$ 56,743,000</u>	<u>\$ 53,374,000</u>