

To Our Shareholders

On October 31, 2012, we reported results for our second quarter of the 2013 fiscal year that ended September 23, 2012.

For the fiscal quarter ended September 23, 2012:

- Net income increased 25.4% to \$2,845,000 as compared to \$2,269,000 for the thirteen weeks ended September 25, 2011;
- Earnings per diluted share increased 40.9% to \$0.62 as compared to \$0.44 for the thirteen weeks ended September 25, 2011;
- Non-GAAP earnings, which exclude the litigation expense items described below, were \$2,912,000 or \$0.63 per diluted share, as compared to \$2,343,000 or \$0.45 per diluted share for the thirteen weeks ended September 25, 2011; and
- Revenues increased 11.7% to \$21,360,000, as compared to \$19,118,000 during the thirteen weeks ended September 25, 2011.

For the twenty-six weeks ended September 23, 2012:

- Net income increased 25.5% to \$4,851,000 as compared to \$3,865,000 for the twenty-six weeks ended September 25, 2011;
- Earnings per diluted share increased 41.3% to \$1.06 as compared to \$0.75 for the twenty-six weeks ended September 25, 2011;
- Non-GAAP earnings which exclude the litigation expense items described below, were \$4,985,000 or \$1.09 per diluted share, as compared \$4,009,000 or \$0.77 per diluted share for the twenty-six weeks ended September 25, 2011; and
- Revenues increased 12.2% to \$41,542,000, as compared to \$37,015,000 during the twenty-six weeks ended September 25, 2011.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased 12.5% to \$23,291,000 during the twenty-six weeks ended September 23, 2012, as compared to sales of \$20,706,000 during the twenty-six weeks ended September 25, 2011.

Sales and direct operating cash flows from the five Company-owned restaurants were \$10,697,000 and \$3,032,000, respectively, during the twenty-six weeks ended September 23, 2012 as compared to \$9,051,000 and \$2,413,000, respectively during the twenty-six weeks ended September 25, 2011.

Gross profit increased to 23.9% of sales during the twenty-six weeks ended September 23, 2012, as compared to 22.0% sales during the twenty-six weeks ended September 25, 2011 due primarily to improved margins from our Branded Product Program.

Retail license royalties increased 18.5% or \$678,000 to \$4,351,000 during the twenty-six weeks ended September 23, 2012, as compared to \$3,673,000 during the twenty-six weeks ended September 25, 2011.

Revenues from franchise operations were \$2,938,000 during the twenty-six weeks ended September 23, 2012, as compared to \$2,855,000 during the twenty-six weeks ended September 25, 2011. Twenty-three new franchised units were opened during the twenty-six weeks ended September 23, 2012, including our first two mobile trucks, our sixth restaurant in the Dominican Republic and twelve 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. 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 \$134,000, net of tax, during each of the twenty-six week periods ended September 23, 2012 and September 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 compatibility 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 six foreign countries through its restaurant system, foodservice sales programs and product licensing activities. The Nathan's restaurant system currently consists of 309 units, comprised of 304 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

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 23, 2012</u>	<u>Sept. 25, 2011</u>	<u>Sept. 23, 2012</u>	<u>Sept. 25, 2012</u>
	(unaudited)		(unaudited)	
Total revenues	\$ 21,360,000	\$ 19,118,000	\$ 41,542,000	\$ 37,015,000
Net Income	<u>\$ 2,845,000</u>	<u>\$ 2,269,000</u>	<u>\$ 4,851,000</u>	<u>\$ 3,865,000</u>
Basic Income per share				
Net Income	<u>\$ 0.65</u>	<u>\$ 0.45</u>	<u>\$ 1.11</u>	<u>\$ 0.77</u>
Diluted income per share				
Net Income	<u>\$ 0.62</u>	<u>\$ 0.44</u>	<u>\$ 1.06</u>	<u>\$ 0.75</u>

Weighted-average shares used
in computing income per share

Basic	<u>4,407,000</u>	<u>5,025,000</u>	<u>4,387,000</u>	<u>5,051,000</u>
Diluted	<u>4,604,000</u>	<u>5,163,000</u>	<u>4,568,000</u>	<u>5,182,000</u>

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

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 23, 2012</u>	<u>Sept. 25, 2011</u>	<u>Sept. 23, 2012</u>	<u>Sept. 25, 2012</u>
	(unaudited)		(unaudited)	
<u>NET INCOME</u>				
Net Income	\$ 2,845,000	\$ 2,269,000	\$ 4,851,000	\$ 3,865,000
Legal expense (a), (net of tax)	-	7,000	-	10,000
Interest expense (b), (net of tax)	<u>67,000</u>	<u>67,000</u>	<u>134,000</u>	<u>134,000</u>
Non-GAAP income	<u>\$ 2,912,000</u>	<u>\$ 2,343,000</u>	<u>\$ 4,985,000</u>	<u>\$ 4,009,000</u>
<u>DILUTED INCOME PER SHARE</u>				
Net Income	\$ 0.62	\$ 0.44	\$ 1.06	\$ 0.75
Legal expense (a), (net of tax)	-	-	-	-
Interest expense (b), (net of tax)	<u>0.01</u>	<u>0.01</u>	<u>0.03</u>	<u>0.02</u>
Non-GAAP income per share	<u>\$ 0.63</u>	<u>\$ 0.45</u>	<u>\$ 1.09</u>	<u>\$ 0.77</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>Sept. 23, 2012</u> (Unaudited)	<u>March 25, 2012</u>
Assets		
Current assets	\$ 39,666,000	\$ 35,550,000
Property and equipment	5,912,000	6,179,000
Cost-method investment	500,000	-
Intangible assets	1,448,000	1,448,000
Other assets, net	1,214,000	1,343,000
Total assets	<u>\$ 48,740,00</u>	<u>\$ 44,520,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 12,280,000	\$ 13,561,000
Other long-term obligations	2,251,000	2,122,000
Stockholders' equity	<u>34,209,000</u>	<u>28,837,000</u>
Total liabilities and stockholders' equity	<u>\$48,740,000</u>	<u>\$ 44,520,000</u>