

## *To Our Shareholders*

On November 8, 2013, we reported results for our second quarter of the 2014 fiscal year that ended September 29, 2013.

For the fiscal quarter ended September 29, 2013:

- Net income was \$2,648,000 as compared to \$2,845,000 for the thirteen weeks ended September 23, 2012;
- Earnings per diluted share were \$0.57 as compared to \$0.62 for the thirteen weeks ended September 23, 2012; and
- Revenues increased by 10.8% to \$23,662,000, as compared to \$21,360,000 during the thirteen weeks ended September 23, 2012.

For the twenty-six weeks ended September 29, 2013:

- Net income increased by 23.7% to \$6,002,000 as compared to \$4,851,000 for the twenty-six weeks ended September 23, 2012;
- Earnings per diluted share increased by 22.6% to \$1.30 as compared to \$1.06 for the twenty-six weeks ended September 23, 2012; and
- Revenues increased by 13.3% to \$47,063,000, as compared to \$41,542,000 during the twenty-six weeks ended September 23, 2012.

In March 2014, our new license agreement will commence with John Morrell & Co. replacing SMG, Inc. as Nathan's exclusive licensee to manufacture and sell branded hot dog, sausage and corned beef products at retail. As previously disclosed, we believe the financial terms of the John Morrell agreement are more advantageous to us compared to the financial terms of the current SMG agreement. Among those improved terms are royalties of 10.8% of net sales, compared to approximately 4.5% of net sales under the SMG agreement, as well as significant minimum annual royalty guarantees. Under the John Morrell Agreement, the minimum guarantee for the first year is \$10 Million, and we believe that actual royalties should exceed the minimum. Royalties earned under the SMG agreement over the last 12 months were \$5,366,000.

License royalties pursuant to all license agreements were \$4,416,000 during the twenty-six weeks ended September 29, 2013, as compared to \$4,351,000 during the twenty-six weeks ended September 23, 2012.

Sales from the Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, increased by 16.4% to \$27,101,000 during the twenty-six weeks ended September 29, 2013, as compared to sales of \$23,291,000 during the twenty-six weeks ended September 23, 2012.

Sales from the Company-owned restaurants were \$9,545,000 during the twenty-six weeks ended September 29, 2013 as compared to \$10,697,000 during the twenty-six weeks ended September 23, 2012; the decline in sales was due to the following: (1) Our Flagship Coney Island restaurant, which was severely damaged by Superstorm Sandy, was not fully repaired and did not reopen until May 20, 2013, and operated for only 18 weeks of the current fiscal year, compared to the full 26 weeks at this point of fiscal 2013; and (2) The temporary closing of our Yonkers restaurant for redevelopment since December 2012. We estimate that these two factors negatively impacted the sales comparison by approximately \$1,895,000.

Sales at our two Coney Island locations were approximately \$801,000 higher in the aggregate than last season even though our Flagship Coney Island restaurant only operated for 18 weeks during the fiscal period ending September 29, 2013. Sales at our seasonal Boardwalk restaurant in Coney Island were approximately 17.1% higher during the 26 weeks ended September 29, 2013 than the 26 weeks ended September 23, 2012.

Gross profit decreased to 21.7% of sales during the twenty-six weeks ended September 29, 2013, as compared to 23.9% of sales during the twenty-six weeks ended September 23, 2012 due primarily to the impact of the higher cost of beef. During the second quarter fiscal 2014, the cost of our beef products were approximately 9.0% higher than the second quarter fiscal 2013 due primarily to an unusual increase in the beef trimmings markets during August and September 2013. We have begun taking steps to pass the recent cost increases on through price increases but there can be no assurance we will be successful in doing so.

Revenues from franchise operations were \$2,863,000 during the twenty-six weeks ended September 29, 2013, as compared to \$2,938,000 during the twenty-six weeks ended September 23, 2012. Fifteen new franchised units were opened during the twenty-six weeks ended September 29, 2013, including four Branded Menu Program outlets and seven locations in Moscow.

Nathan's realized a gain of \$2,801,000 during the twenty-six weeks ended September 29, 2013 in connection with the settlement of its flood damage and contents loss insurance claims relating to Superstorm Sandy.

Nathan's recognized an impairment charge of \$400,000 in connection with a long-term investment.

Nathan's final appeal in the SMG litigation was denied. As a result, the judgment of \$4,910,000 and all post-judgment interest of \$1,099,000, was satisfied on July 24, 2013. As previously described, we accrued the expense of the judgment in October 2010, and have been accruing the expenses for post-judgment interest on a monthly basis throughout the appeals process.

In October, 2013, Nathan's was ranked #55 on the Forbes list of the Best Small Companies in America and was listed as the Best Small Company in New York State.

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, the Cayman Islands and nine foreign countries through its restaurant system, foodservice sales programs and product licensing activities. The Nathan's restaurant system currently consists of 314 units, comprised of 309 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](http://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. 29, 2013</u>	<u>Sept. 23, 2012</u>	<u>Sept. 29, 2013</u>	<u>Sept. 23, 2012</u>
	(unaudited)		(unaudited)	
Total revenues	<u>\$ 23,662,000</u>	<u>\$ 21,360,000</u>	<u>\$ 47,063,000</u>	<u>\$ 41,542,000</u>
Net income	<u>\$ 2,648,000</u>	<u>\$ 2,845,000</u>	<u>\$ 6,002,000</u>	<u>\$ 4,851,000</u>
Basic income per share				
Net income	<u>\$ 0.59</u>	<u>\$ 0.65</u>	<u>\$ 1.35</u>	<u>\$ 1.11</u>
Diluted income per share				
Net income	<u>\$ 0.57</u>	<u>\$ 0.62</u>	<u>\$ 1.30</u>	<u>\$ 1.06</u>
Weighted-average shares used in computing income per share				
Basic	<u>4,460,000</u>	<u>4,407,000</u>	<u>4,437,000</u>	<u>4,387,000</u>
Diluted	<u>4,625,000</u>	<u>4,604,000</u>	<u>4,603,000</u>	<u>4,568,000</u>

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

	<u>Sept. 29, 2013</u>	<u>March 31, 2013</u>
	(Unaudited)	
Assets		
Current assets	\$ 41,602,000	\$ 40,988,000
Property and equipment	8,668,000	5,788,000
Long-term investment	100,000	500,000
Intangible assets	1,448,000	1,448,000
Other assets, net	<u>463,000</u>	<u>938,000</u>
Total assets	<u>\$ 52,281,000</u>	<u>\$ 49,662,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 7,965,000	\$ 13,463,000
Other long-term obligations	2,015,000	2,051,000
Deferred income taxes	605,000	-
Stockholders' equity	<u>41,696,000</u>	<u>34,148,000</u>
Total liabilities and stockholders' equity	<u>\$ 52,281,000</u>	<u>\$ 49,662,000</u>