

To Our Shareholders

Management is extremely pleased that this has been the fifteenth consecutive quarter in which quarterly profits from continuing operations have increased as compared to the same period of the prior year.

For the thirteen weeks ended December 24, 2006, our revenue and earnings from continuing operations increased by 11.3% and 37.6%, respectively, over the thirteen weeks ended December 25, 2005.

Income from continuing operations increased by 37.6% to \$1,039,000 or \$0.18 per basic share and \$0.17 per diluted share for the thirteen weeks ended December 24, 2006 as compared to \$755,000 or \$0.14 per basic share and \$0.12 per diluted share for the thirteen weeks ended December 25, 2005.

Total revenues from continuing operations increased by 11.3% to \$10,554,000 during the thirteen weeks ended December 24, 2006 as compared to \$9,479,000 during the thirteen weeks ended December 25, 2005.

Net income for the thirteen weeks ended December 24, 2006 increased by 37.8% to \$1,061,000 or \$0.18 per basic share and \$0.17 per diluted share as compared to \$770,000 or \$0.14 per basic share and \$0.12 per diluted share for the thirteen weeks ended December 25, 2005.

For the thirty-nine weeks ended December 24, 2006, our revenue and earnings from continuing operations increased by 10.5% and 20.7%, respectively, over the thirty-nine weeks ended December 25, 2005.

Income from continuing operations increased by 20.7% to \$3,982,000 or \$0.69 per basic share and \$0.63 per diluted share for the thirty-nine weeks ended December 24, 2006 as compared to \$3,300,000 or \$0.59 per basic share and \$0.50 per diluted share for the thirty-nine weeks ended December 25, 2005.

Total revenues from continuing operations increased by 10.5% to \$35,862,000 during the thirty-nine weeks ended December 24, 2006 as compared to \$32,456,000 during the thirty-nine weeks ended December 25, 2005.

Net income for the thirty-nine weeks ended December 24, 2006 was \$4,301,000 or \$0.74 per basic share and \$0.68 per diluted share as compared to \$5,047,000 or \$0.91 per basic share and \$0.77 per diluted share for the thirty-nine weeks ended December 25, 2005.

Nathan's realized gains of \$400,000 and \$2,819,000, during the 2006 and 2005 periods, respectively, from the sale of a previously owned vacant parcel of land and adjacent leasehold interest. The effects of these gains, net of tax, were \$239,000 or \$0.04 per basic and diluted share, during the thirty-nine weeks ended December 24, 2006 and \$1,724,000 or \$0.31 and \$0.26 per basic and diluted share, respectively, during the thirty-nine weeks ended December 25, 2005.

The Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, has continued its growth. Sales increased by 12.0% to \$4,783,000 during the thirteen weeks ended December 24, 2006 as compared to sales of \$4,269,000 during the thirteen weeks ended December 25, 2005. Sales increased by 14.7% to \$14,720,000 during the thirty-nine weeks ended December 24, 2006 as compared to sales of \$12,832,000 during the thirty-nine weeks ended December 25, 2005.

Revenues from Nathan's other operating profit centers, including company-owned restaurants, restaurant franchising, retail licensing, and sales to its television marketer, increased by \$611,000 or 12.4% during the thirteen weeks ended December 24, 2006 as compared to the thirteen weeks ended December 25, 2005 and \$1,662,000 or 8.8% during the thirty-nine weeks ended December 24, 2006 as compared to the thirty-nine weeks ended December 25, 2005.

Nathan's incurred new administrative expenses during the thirty-nine weeks ended December 24, 2006 of \$208,000 in connection with the adoption of a new accounting standard requiring that the fair value of options granted be charged against earnings, \$172,000 in connection with professional services associated with its preparations to comply with the Sarbanes-Oxley Section 404 requirements and severance expense of \$73,000.

At December 24, 2006, Nathan's products were distributed in 49 states, the District of Columbia and 13 foreign countries through its restaurant system, Branded Product Program and retail licensing activities. At December 24, 2006, Nathan's restaurant system consisted of 361 franchised or licensed units and six company-owned units (including one seasonal unit) featuring the Nathan's, Miami Subs and Kenny Rogers Roasters brands. For additional information about Nathan's, Kenny Rogers Roasters or Miami Subs 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. AND SUBSIDIARIES
Summary Consolidated Statements of Earnings Data

	<u>Thirteen weeks Ended</u> (Unaudited)		<u>Thirty-nine weeks Ended</u> (Unaudited)	
	<u>Dec. 24, 2006</u>	<u>Dec. 25, 2005</u>	<u>Dec. 24, 2006</u>	<u>Dec. 25, 2005</u>
Total revenues from continuing operations	\$ 10,554,000	\$ 9,479,000	\$ 35,862,000	\$ 32,456,000
Income from continuing operations	\$ 1,039,000	\$ 755,000	\$ 3,982,000	\$ 3,300,000
Income from discontinued operations	<u>\$ 22,000</u>	<u>\$ 15,000</u>	<u>\$ 319,000</u>	<u>\$ 1,747,000</u>
Net income	<u>\$ 1,061,000</u>	<u>\$ 770,000</u>	<u>\$ 4,301,000</u>	<u>\$ 5,047,000</u>
Basic income per share				
Income from continuing operations	\$ 0.18	\$ 0.14	\$ 0.69	\$ 0.59
Income from discontinued operations	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.05</u>	<u>\$ 0.32</u>
Net income	<u>\$ 0.18</u>	<u>\$ 0.14</u>	<u>\$ 0.74</u>	<u>\$ 0.91</u>
Diluted income per share				
Income from continuing operations	\$ 0.17	\$ 0.12	\$ 0.63	\$ 0.50
Income from discontinued operations	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.05</u>	<u>\$ 0.27</u>
Net income	<u>\$ 0.17</u>	<u>\$ 0.12</u>	<u>\$ 0.68</u>	<u>\$ 0.77</u>
Weighted average shares used in computing income per share				
Basic	<u>5,892,000</u>	<u>5,594,000</u>	<u>5,799,000</u>	<u>5,571,000</u>
Diluted	<u>6,401,000</u>	<u>6,565,000</u>	<u>6,311,000</u>	<u>6,522,000</u>

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

	<u>Dec. 24, 2006</u> (Unaudited)	<u>Mar. 26, 2006</u>
Assets		
Current assets	\$ 34,074,000	\$ 26,999,000
Property and equipment, net	4,285,000	4,568,000
Notes receivable, net	110,000	137,000
Intangible assets, net	3,789,000	3,979,000
Deferred income taxes and other assets, net	<u>1,544,000</u>	<u>1,740,000</u>
Total assets	<u>\$ 43,802,000</u>	<u>\$ 37,423,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 8,466,000	\$ 7,924,000
Capitalized lease obligation less current maturities	-	31,000
Other long-term obligations	1,473,000	1,420,000
Stockholders' equity	<u>33,863,000</u>	<u>28,048,000</u>
Total liabilities and stockholders' equity	<u>\$ 43,802,000</u>	<u>\$ 37,423,000</u>