

To Our Shareholders

On November 4, 2016, we reported results for the second quarter of our 2017 fiscal year that ended September 25, 2016.

For the fiscal quarter ended September 25, 2016:

- Income from operations was \$8,031,000, as compared to \$8,426,000 during the thirteen weeks ended September 27, 2015;
- Adjusted EBITDA, as subsequently defined, was \$8,610,000 as compared to \$9,006,000 for the thirteen weeks ended September 27, 2015;
- Net income was \$2,507,000, as compared to \$2,847,000 for the thirteen weeks ended September 27, 2015;
- Earnings per diluted share were \$0.60 per share, as compared to \$0.64 per share for the thirteen weeks ended September 27, 2015; and
- Revenues were \$28,013,000, as compared to \$30,619,000 during the thirteen weeks ended September 27, 2015.

For the twenty-six weeks ended September 25, 2016:

- Income from operations increased by 5.1% to \$16,855,000, as compared to \$16,042,000 during the twenty-six weeks ended September 27, 2015;
- Adjusted EBITDA, as subsequently defined, increased by 4.2% to \$17,976,000, as compared to \$17,257,000 for the twenty-six weeks ended September 27, 2015;
- Net income increased by 17.5% to \$6,057,000, as compared to \$5,157,000 for the twenty-six weeks ended September 27, 2015;
- Earnings per diluted share were \$1.44 per share, as compared to \$1.14 per share for the twenty-six weeks ended September 27, 2015; and
- Revenues were \$57,429,000, as compared to \$61,273,000 during the twenty-six weeks ended September 27, 2015.

License royalties were \$11,612,000 during the twenty-six weeks ended September 25, 2016, as compared to \$11,792,000 during the twenty-six weeks ended September 27, 2015. During the twenty-six weeks ended September 25, 2016, total royalties earned under the John Morrell & Co., agreement were \$10,714,000, as compared to \$10,932,000 of royalties earned during the twenty-six weeks ended September 27, 2015. During this period, the volume of products sold increased by 6.9%; however, a more competitive promotional environment this summer led to an 8.2% decrease in the average net selling price on which our royalty is calculated.

In the Branded Product Program, which features the sale of Nathan's hot dogs to the foodservice industry, sales were \$31,481,000 during the twenty-six weeks ended September 25, 2016, as compared to sales of \$33,595,000 during the twenty-six weeks ended September 27, 2015. Operating profits increased for the fiscal 2017 period by approximately \$1.9 million over the fiscal 2016 period. During the period, the volume of products sold increased by 3.1% but our average selling price declined by approximately 9.2% due to the impact of lower beef markets on that portion of our business that is sold using formula pricing.

Sales from the Company-operated restaurants were \$11,458,000 during the twenty-six weeks ended September 25, 2016 as compared to \$12,842,000 during the twenty-six weeks ended September 27, 2015 driven primarily from lower sales at both Coney Island locations, due to unfavorable weather conditions during the fiscal 2017 period compared to the weather conditions during the fiscal 2016 period when we achieved record sales at both of these locations.

Revenues from franchise operations were \$2,664,000 during the twenty-six weeks ended September 25, 2016, as compared to \$2,617,000 during the twenty-six weeks ended September 27, 2015. Total franchise fee income was \$262,000 during the twenty-six weeks ended September 25, 2016 as compared to \$207,000 during the twenty-six weeks ended September 27, 2015, primarily due to higher international development fees. Twenty new franchised outlets opened during the twenty-six weeks ended September 25, 2016, including seven international locations, and 11 Branded Menu Program outlets. Twenty-three new franchised outlets opened, during the twenty-six weeks ended September 27, 2015, including seven international locations, and 11 Branded Menu Program outlets.

Nathan's tax rate was reduced by 6.5 percentage points as a result of early adopting the provisions of Financial Accounting Standards Board ASU 2016-09, "Stock Compensation", which now reduces the Company's tax provision for the excess tax benefits associated with stock compensation instead of increasing Additional paid-in-capital, as was past practice.

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 (loss) 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 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, and eleven foreign countries through its restaurant system, foodservice sales programs and product licensing activities. Last year, over 550 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>Twenty-six weeks ended</u>	
	<u>Sept. 25, 2016</u>	<u>Sept. 27, 2015</u>	<u>Sept. 25, 2016</u>	<u>Sept. 27, 2015</u>
	(unaudited)		(unaudited)	
Total revenues	<u>\$ 28,013,000</u>	<u>\$ 30,619,000</u>	<u>\$ 57,429,000</u>	<u>\$ 61,273,000</u>
Income from operations (a)	<u>\$ 8,031,000</u>	<u>\$ 8,426,000</u>	<u>\$ 16,855,000</u>	<u>\$ 16,042,000</u>
Net income	<u>\$ 2,507,000</u>	<u>\$ 2,847,000</u>	<u>\$ 6,057,000</u>	<u>\$ 5,157,000</u>
Income per share:				
Basic	<u>\$ 0.60</u>	<u>\$ 0.64</u>	<u>\$ 1.45</u>	<u>\$ 1.14</u>
Diluted	<u>\$ 0.60</u>	<u>\$ 0.64</u>	<u>\$ 1.44</u>	<u>\$ 1.14</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,172,000</u>	<u>4,432,000</u>	<u>4,169,000</u>	<u>4,508,000</u>
Diluted	<u>4,207,000</u>	<u>4,449,000</u>	<u>4,199,000</u>	<u>4,535,000</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>Twenty-six weeks ended</u>	
	<u>Sept. 25, 2016</u>	<u>Sept. 27, 2015</u>	<u>Sept. 25, 2016</u>	<u>Sept. 27, 2015</u>
	(unaudited)		(unaudited)	
<u>EBITDA</u>				
Net Income	\$ 2,507,000	\$ 2,847,000	\$ 6,057,000	\$ 5,157,000
Interest expense	3,663,000	3,709,000	7,339,000	7,418,000
Provision for income taxes	1,918,000	1,942,000	3,538,000	3,570,000
Depreciation and amortization	<u>349,000</u>	<u>333,000</u>	<u>696,000</u>	<u>672,000</u>
EBITDA	<u>\$ 8,437,000</u>	<u>\$ 8,831,000</u>	<u>\$ 17,630,000</u>	<u>\$ 16,817,000</u>
<u>Adjusted EBITDA</u>				
EBITDA	\$ 8,437,000	\$ 8,831,000	\$ 17,630,000	\$ 16,817,000
Stock-based compensation	173,000	173,000	346,000	376,000
Amortization of bond premium (b)	-	2,000	-	64,000
Adjusted EBITDA	<u>\$ 8,610,000</u>	<u>\$ 9,006,000</u>	<u>\$ 17,976,000</u>	<u>\$ 17,257,000</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>Sept. 25, 2016</u> <u>Unaudited</u>	<u>March 27, 2016</u>
Assets		
Current assets	\$ 65,184,000	\$ 60,979,000
Property and equipment, net of accumulated depreciation	8,923,000	9,013,000
Intangible assets	1,448,000	1,448,000
Other assets	<u>94,000</u>	<u>109,000</u>
Total assets	<u>\$ 75,649,000</u>	<u>\$ 71,549,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 10,259,000	\$ 11,200,000
Long-term debt, net of unamortized debt discounts and issuance costs	130,877,000	130,266,000
Other long-term obligations	1,639,000	1,706,000
Deferred income taxes	740,000	713,000
Stockholders' (deficit)	<u>(67,866,000)</u>	<u>(72,336,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 75,649,000</u>	<u>\$ 71,549,000</u>