delivering

expansion

seizing opportunity

Branding

2001 Annual Report

Profile

Nathan's has truly become a "Family of Brands," uniquely and attractively positioned in today's marketplace.

Nathan's Famous, Kenny Rogers Roasters, and Miami Subs are being advanced independently and in concert with one another, through co-branding, in traditional and captive-market restaurant environments, both domestically and internationally. The signature products of each brand may also be marketed throughout a wide and diverse spectrum of alternate channels of distribution.

Leveraging the equity of our highly-recognized and valued brands and quality products through the implementation of a brand marketing and points-of-distribution strategy provides for new and exciting, expansive growth opportunities.

The world's greatest tastes...all in one place.

Financial Highlights

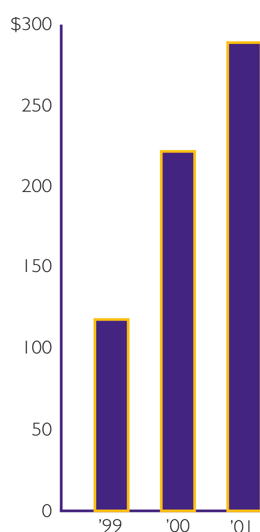
	Fiscal Year		
	2001	2000	1999
	(Dollars in thousands, except per share amounts)		
Systemwide Data:			
Sales**	**$287,005**	$221,014	$117,539
Number of outlets, at year end***	**411**	447	188
Selected Consolidated Financial Data:			
Revenues	**$ 47,174**	$ 38,528	$ 29,582
Income (loss) before taxes*	**3,022**	(1,520)	2,310
Net earnings (loss)*	**1,606**	(1,270)	2,728
Net earnings (loss) per share*			
Basic	**$ 0.23**	$ (0.22)	$ 0.58
Diluted	**$ 0.23**	$ (0.22)	$ 0.57
Weighted average number of common shares outstanding			
Basic	**7,059**	5,881	4,722
Diluted	**7,098**	5,881	4,753
Total assets	**51,826**	48,583	31,250
Stockholders' equity	**35,031**	33,347	26,348

In 2000, provisions of $2.5 million or $0.42 per share were recorded associated with asset impairments, franchisee guarantees, restaurant closures, and bad debts.

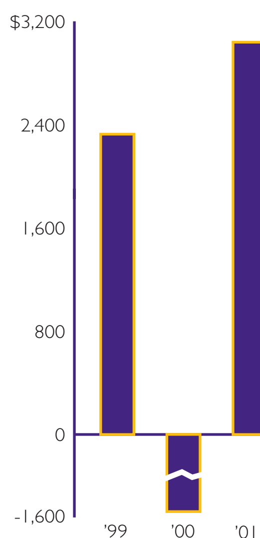
***Includes Company-owned and franchise restaurant sales, sales to supermarkets by SMG, Inc., and sales of proprietary food and related items under the Branded Product Program.*

****Includes Company-owned restaurants and franchised and licensed restaurants.*

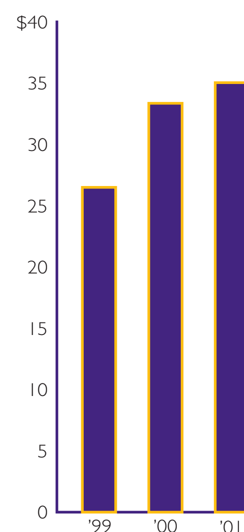
Systemwide Sales**
(dollars in millions)



Income (Loss) Before Taxes*
(dollars in thousands)



Stockholders' Equity
(dollars in millions)



Stockholders' Letter

Fellow Shareholders:

Fiscal 2001 was highlighted by significant growth, primarily attributable to our recent acquisitions of Miami Subs and Kenny Rogers Roasters, as well as the exclusive rights to market Arthur Treacher's Fish and Chip products in co-branded settings. We enhanced our restaurant system by combining our highly-valued brands through the initial implementation of our co-branding plan.

We are continuing our successful brand-marketing approach and points-of-distribution strategy. As a result, the market exposure of the Nathan's brand and sales of our signature hot dog products continue to increase substantially throughout established and newly-cultivated channels of distribution.

Due to our recent acquisitions and our expanded distribution, we realized record system-wide sales, revenues, and pretax profits during this past year.

Co-Branding Existing Operations

A primary objective of our acquisitions was to capitalize on the combined use of our brands within company-owned and franchised restaurants.

We are continuing our successful brand-marketing approach and points-of-distribution strategy.

To date, the Arthur Treacher's brand and signature products are featured in 96 Miami Subs restaurants, 25 Nathan's restaurants, and 4 Kenny Rogers Roasters restaurants. The Nathan's brand and products are in 66 Miami Subs restaurants and 5 Kenny Rogers Roasters restaurants. A Kenny Rogers Express module is situated within 62 Miami Subs restaurants and 3 Nathan's restaurants and a recently developed Miami Subs Express is presently being tested within a Nathan's restaurant.

The successful roll out of our co-branding plan is most visible in the Miami Subs system where 105 restaurants now utilize two or more of our brands and proprietary products. Of these 105 restaurants, 70 have undergone a marketing repositioning and are now known as "Miami Subs Plus!". The transformation to our recently created Miami Subs Plus! concept will continue. The introduction will be supported by an exciting multi-media, advertising campaign featuring the use of television, radio, outdoor billboards, and print media commencing in southern Florida in July 2001.

Expansion

We intend to expand each restaurant concept in traditional and captive-market locations, both independently and in concert with one another with an emphasis on

Opportunities

co-branding. New restaurant prototypes and down-sized foodservice modules are being developed and tested to help us achieve our expansion plans, both domestically and internationally.

We expect to continue our progress with the growth of the Nathan's Branded-Product Program. Today, there are over 1,200 locations featuring the sale of Nathan's hot dogs in highly-visible settings which include airports, universities, casino hotels, theaters, convenience stores, stadiums, as well as a wide variety of other foodservice environments.

During this past year we have realized an increase in the sale of Nathan's products in supermarkets and club stores. We anticipate exploring opportunities to market Kenny Rogers Roasters and Miami Subs products outside of restaurants, as we have successfully accomplished with Nathan's.

We continue to negotiate with prospective international master franchisees for the potential development of our restaurant concepts and distribution strategies in several foreign countries.

Potential

In Conclusion

We have completed the integration of Miami Subs and Kenny Rogers Roasters and continue to improve our entire system's performance by capitalizing on our brand marketing and points-of-distribution strategy. Today, our company is engaged in business in 42 states, the District of Columbia, and 16 foreign countries featuring the Nathan's, Miami Subs, and Kenny Rogers Roasters brands.

Our focused strategies, creative approaches, ever-expanding opportunities, and commitment to quality highlight Nathan's path towards continued long-term success. We believe significant benefit will be afforded to our consumers, business partners, employees, and to you—our shareholders. We are appreciative of your continued support.

Howard M. Lorber
Chairman and Chief Executive Officer

Wayne Norbitz
President and Chief Operating Officer

Selected Consolidated Financial Data

(in thousands, except per share amounts)

	Fiscal years ended				
	March 25, 2001	March 26, 2000	March 28, 1999	March 29, 1998	March 30, 1997
Statement of Operations Data:					
Revenues:					
Sales	**$ 34,799**	$ 29,642	$23,964	$22,971	$21,718
Franchise fees and royalties	**8,814**	5,906	3,230	3,062	3,238
License royalties and other income	**3,561**	2,343	1,953	2,393	1,619
Total revenues	**47,174**	37,891	29,147	28,426	26,575
Costs and Expenses:					
Cost of sales	**22,530**	18,977	14,932	14,017	13,031
Restaurant operating expenses	**8,964**	8,208	5,780	6,411	6,602
Depreciation and amortization	**1,791**	1,358	1,065	1,035	1,013
Amortization of intangible assets	**839**	716	384	384	406
General and administrative expenses	**8,978**	8,222	4,722	4,755	4,097
Interest expense	**310**	198	1	6	16
Impairment of long-lived assets	**127**	465	302	—	—
Impairment of notes receivable	**151**	840	—	—	—
Other expense (income)	**462**	427	(349)	—	—
Total costs and expenses	**44,152**	39,411	26,837	26,608	25,165
Income (loss) before provision (benefit) for income taxes	**3,022**	(1,520)	2,310	1,818	1,410
Provision (benefit) for income taxes	**1,416**	(250)	(418)	290	622
Net income (loss)	**$ 1,606**	$ (1,270)	$ 2,728	$ 1,528	$ 788
Per Share Data:					
Net income (loss)					
Basic	**$ 0.23**	$ (0.22)	$ 0.58	$ 0.32	$ 0.17
Diluted	**$ 0.23**	$ (0.22)	$ 0.57	$ 0.32	$ 0.17
Dividends	**—**	—	—	—	—
Number of common shares used in computing net income (loss) per share					
Basic	**7,059**	5,881	4,722	4,722	4,722
Diluted[1]	**7,098**	5,881	4,753	4,749	4,729
Balance Sheet Data at End of Fiscal Year:					
Working capital (deficit)	**$ 5,210**	$ (147)	$ 3,708	$ 6,105	$ 4,802
Total assets	**51,826**	48,583	31,250	29,539	27,794
Long-term debt, net of current maturities	**1,789**	3,131	0	9	21
Stockholders' equity	**$ 35,031**	$ 33,347	$26,348	$23,586	$21,976
Selected Restaurant Operating Data:					
Systemwide Restaurant Sales:					
Company-owned	**$ 30,946**	$ 27,478	$21,981	$22,332	$21,718
Franchised	**208,899**	152,627	64,178	58,802	68,564
Total	**$239,835**	$180,105	$86,159	$81,134	$85,282
Number of Units Open at End of Fiscal Year:					
Company-owned	**25**	32	25	27	26
Franchised	**386**	415	163	156	147
Total	**411**	447	188	183	173

Notes to Selected Financial Data

(1) Common Stock equivalents have been excluded from the computation for the year ended March 26, 2000 as the impact of their inclusion would have been anti-dilutive.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Introduction

During the fiscal year ended March 26, 2000, we completed two acquisitions that provided us with two highly recognized brands. On April 1, 1999, we became the franchisor of the Kenny Rogers Roasters restaurant system by acquiring the intellectual property rights, including trademarks, recipes and franchise agreements of Roasters Corp. and Roasters Franchise Corp. On September 30, 1999, we acquired the remaining 70% of the outstanding common stock of Miami Subs Corporation we did not already own. Our revenues are generated primarily from operating company-owned restaurants and franchising the Nathan's, Kenny Rogers and Miami Subs restaurant concepts, licensing agreements for the sale of Nathan's products within supermarkets and selling products under Nathan's Branded Product Program. The Branded Product Program enables foodservice operators to offer Nathans' hot dogs and other proprietary items for sale within their facilities. In conjunction with this program, foodservice operators are granted a limited use of the Nathans' trademark with respect to the sale of hot dogs and certain other proprietary food items and paper goods.

At March 25, 2001, our combined systems consisted of 25 company-owned units, 386 franchised or licensed units and over 1,200 Nathan's Branded Product points of distribution that feature Nathan's world famous all-beef hot dogs, located in 42 states, the District of Columbia and sixteen foreign countries. At March 25, 2001, our company-owned restaurant system included 17 Nathan's units, six Miami Subs units and two Kenny Rogers Roasters units, as compared to 19 Nathan's units, 11 Miami Subs units and two Kenny Rogers Roasters units at March 26, 2000.

In addition to plans for expansion, Nathan's is in the process of capitalizing on co-branding opportunities within its existing restaurant system. To date, the Arthur Treacher's brand has been introduced within 125 Nathan's, Kenny Rogers Roasters and Miami Subs restaurants, the Nathan's brand has been added to the menu of 71 Miami Subs and Kenny Rogers restaurants, while the Kenny Rogers Roasters brand has been introduced into 65 Miami Subs and Nathan's restaurants.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 15 of those properties. We continue to market two of those properties for sale and will terminate the lease for the last unit upon the lease expiration in May 2002. We also terminated 10 additional leases for properties outside of the divestiture plan and incurred a charge to earnings of approximately $463,000 in the fiscal 2001 period.

Results of Operations

Fiscal Year Ended March 25, 2001 Compared to Fiscal Year Ended March 26, 2000

Effective October 1, 1999, the results of Miami Subs Corporation have been included in the consolidated results of Nathan's Famous, Inc. Our results of operations for the 52 weeks ended March 26, 2000 included the operations of Miami Subs for approximately 26 weeks as compared to including 52 weeks of such operations for the period ended March 25, 2001. The results of Miami Subs' operations for the twenty-six week period ended September 24, 2000 have been separately stated to quantify that impact on the fifty-two weeks of operations for the non-comparable period.

Revenues

Total sales increased by 17.4% or $5,157,000 to $34,799,000 for the fifty-two weeks ended March 25, 2001 ("fiscal 2001 period") as compared to $29,642,000 for the fifty-two weeks ended March 26, 2000 ("fiscal 2000 period"). Of the total increase, sales increased by $5,968,000 during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year, offset by a sales decline of $811,000 primarily due to the operation of 18 fewer company-owned stores as compared to the prior fiscal period which was partly offset by sales from newly opened restaurants and increased sales of our Branded Products. This unit reduction is the result of our franchising eight company-owned restaurants, transferring one company-owned restaurant to a franchisee pursuant to a management agreement, closing seven unprofitable company-owned units (including three Miami Subs restaurants pursuant to our divestiture plan) and closing two units due to lease expirations. The financial impact associated with these 18 restaurants lowered restaurant sales by $4,299,000 and improved restaurant operating profits by $135,000 versus the fiscal 2000 period. Additionally, one unit was temporarily closed during part of the fiscal 2001 period for renovation. This unit re-opened in October 2000. Comparable restaurant sales of the company-owned Nathan's brand (neither Miami Subs nor Roasters company-owned restaurants were deemed to be comparable units based upon their period of operation under our ownership) also declined by 1.5% versus the fiscal 2000 period, due principally to weakness experienced at the Coney Island restaurant primarily attributable to the unfavorable weather conditions experienced earlier in the fiscal year. During the fiscal 2001 period, sales from two new company-owned restaurants were $2,343,000. Sales from the Branded Product Program increased by 78.1% to $3,853,000 for the fiscal 2001 period as compared to sales of $2,163,000 in the fiscal 2000 period.

Franchise fees and royalties increased by 49.2% or $2,908,000 to $8,814,000 in the fiscal 2001 period compared to $5,906,000 in the fiscal 2000 period. Increases in franchise fees and royalties during the twenty-six week period ended September 24, 2000 resulting from the Miami Subs acquisition made last year was $2,397,000. Franchise sales of Nathan's three restaurant concepts increased by 36.9% to $208,889,000 in the fiscal 2001 period as compared to $152,627,000 in the fiscal 2000 period due primarily to the inclusion of Miami Subs franchise system sales for the entire fiscal 2001 period compared to twenty-six weeks for the fiscal 2000 period. Franchise royalties were $8,060,000 in the fiscal 2001 period as compared to $5,167,000 in the fiscal 2000 period. Franchise fee income derived from new unit openings and our co-branding initiative were $754,000 in the fiscal 2001 period as compared to $739,000 in the fiscal 2000 period. This increase was primarily attributable to the number of franchised units opened between the two periods, franchise fees earned from the co-branded restaurant conversions and the difference between expired franchise fees recognized into income. During the fiscal 2001 period, seventeen new franchised or licensed units opened.

License royalties were $1,958,000 in the fiscal 2001 period as compared to $1,906,000 in the fiscal 2000 period. Royalties earned from the sale of Nathan's frankfurters within supermarkets and club stores were approximately $1,614,000 during the fiscal 2001 period as compared to $1,432,000 during the fiscal 2000 period. Royalties from the sale of proprietary spices and marinade were approximately $228,000 in the fiscal 2001 period as compared to $184,000 in the fiscal 2000 period. During the fiscal 2001 period, we terminated an agreement with a licensee which lowered our revenue for the fiscal 2001 period by approximately $125,000 as compared to the fiscal 2000 period.

Equity in losses of unconsolidated affiliate of $163,000 in the fiscal 2000 period represented Nathans' proportionate share of Miami Subs' net loss for the period March 1, 1999 through September 30, 1999, which has been reported on a one month lag since the acquisition of the 30% equity interest. Included in Miami Subs' net loss for the period were merger costs of $325,000.

Investment and other income increased by $1,003,000 to $1,603,000 in the fiscal 2001 period versus $600,000 in the fiscal 2000 period. Increases in other income during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year was $392,000. During the fiscal 2001 period Nathan's recognized income of approximately $694,000 in connection with the introduction of a consolidated food distribution system for its three restaurant concepts and the ongoing recognition of deferred marketing support. The increase is also attributable to a transfer fee of $500,000 that was earned in connection with a change in ownership of Nathan's licensee, SMG, Inc. Investment income was approximately $756,000 less than the fiscal 2000 period due primarily to the difference in performance of the financial markets between the two periods which was partially offset by higher interest income of approximately $195,000.

Costs and Expenses

Cost of sales increased by $3,553,000 to $22,530,000 in the fiscal 2001 period from $18,977,000 in the fiscal 2000 period. Of the total increase, cost of sales increased by $3,837,000 during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year. Cost of sales attributable to two new company-owned restaurants along with higher labor costs in the Nathan's brand partially offset lower costs of operating fewer company-owned restaurants totaling $2,969,000 as compared to the fiscal 2000 period. The cost of restaurant sales at Nathans' comparable units was 60.2% as a percentage of restaurant sales in the fiscal 2001 period as compared to 60.0% as a percentage of restaurant sales in the fiscal 2000 period due primarily to higher labor costs (neither Miami Subs nor Roasters company-owned restaurants were deemed to be comparable units based upon their period of operation under our ownership). Higher cost of sales totaling approximately $1,152,000 were incurred in connection with the growth of the Branded Product Program.

Restaurant operating expenses increased by $756,000 to $8,964,000 in the fiscal 2001 period from $8,208,000 in the fiscal 2000 period. Restaurant operating expenses increased by $1,687,000 during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year. Lower costs of $1,622,000 were attributable to the closed company-owned restaurants as compared to the end of fiscal 2000 which were partially offset by higher costs of approximately $735,000 from operating two new Roasters restaurants and higher utility costs at company-owned comparable restaurants.

Depreciation and amortization increased by $433,000 to $1,791,000 in the fiscal 2001 period from $1,358,000 in the fiscal 2000 period. Depreciation expense increased by $403,000 during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year. Depreciation expense attributable two new company-owned restaurants and the remaining capital spending for the fiscal 2001 period was partially offset by the lower depreciation expense of operating fewer company-owned restaurants versus the fiscal 2000 period.

Amortization of intangibles increased by $123,000 to $839,000 in the fiscal 2001 period from $716,000 in the fiscal 2000 period primarily as a result of the Miami Subs acquisition made last year which is attributable to intangible assets acquired and the amortization of the excess purchase price.

General and administrative expenses increased by $756,000 to $8,978,000 in the fiscal 2001 period as compared to $8,222,000 in the fiscal 2000 period. General and administrative expenses increased by approximately $1,562,000 during the twenty-six week period ended September 24, 2000 as a result of the Miami Subs acquisition made last year. General and administrative expenses, excluding the impact of Miami Subs, decreased by $806,000 primarily due to lower bad debt expense of approximately $739,000 and certain rebates of approximately $178,000, which were partially offset by higher spending in connection with personnel costs and incentive compensation of approximately $245,000.

Interest expense was $310,000 during the fiscal 2001 period as compared to $198,000 during the fiscal 2000 period. Interest expense increased principally due to the different periods of time that Miami Subs has been owned by Nathan's, which expense has been reduced by the repayment of some of the Miami Subs' assumed debt since the date of the acquisition.

Impairment charges on notes receivable of $151,000 during the fiscal 2001 period and $840,000 during the fiscal 2000 period relate to write-downs of one and six notes receivable, respectively.

Impairment charges on fixed assets of $127,000 during the fiscal 2001 period and $465,000 during the fiscal 2000 period reflect write-downs relating to one under-performing store in the fiscal 2001 period and three under-performing stores in the fiscal 2000 period.

Other expense of $462,000 during the fiscal 2001 period relates primarily to lease termination expenses of units that were not part of the final divestiture plan of $463,000. During the fiscal 2000 period, other expense of $427,000 included approximately $191,000 in lease expense resulting from the default of subleases and $236,000 in connection with the satisfaction of certain financial guarantees.

Income Tax Expense

In the fiscal 2001 period, the income tax provision was $1,416,000 or 46.9% of income before income taxes as compared to an income tax benefit of ($250,000) or (16.4%) of loss before income taxes in the fiscal 2000 period. These rates are higher than the statutory federal tax rate due to the effect of state and local taxes and certain nondeductible expenses. Nathan's has agreed to accept an offer by the Internal Revenue Service to conclude the Miami Subs tax audit for the years 1991 through 1996. As part of that agreement, Nathan's expects that certain amortization of intangible assets previously deducted by Miami Subs will be reversed and will not be deductible in the future.

Fiscal Year Ended March 26, 2000 Compared to Fiscal Year Ended March 28, 1999

Revenues

Total sales were $29,642,000 for the fifty-two weeks ended March 26, 2000 ("the fiscal 2000 period") as compared to $23,964,000 for the fifty-two weeks ended March 28, 1999 ("the fiscal 1999 period"). Of the total increase, sales increased by $6,985,000 as a result of the acquisitions made this year. Company-owned restaurant sales of the Nathan's brand decreased 6.0% or $1,318,000 to $20,664,000 from $21,982,000. This restaurant sales decline is primarily due to the impact of franchising three company-owned restaurants and closing three other unprofitable company-owned restaurants during the current fiscal year and closing two company-owned units during the prior fiscal year due to the lease expirations. The total sales decline during the fiscal 2000 period attributable to these eight stores was $1,763,000. Comparable restaurant sales of the Nathan's brand increased by 1.1% versus the fiscal 1999 period. We continued to emphasize local store marketing activities, new product introductions and value pricing strategies for the Nathan's brand. These activities were supplemented by a regional newsprint campaign during the summer of 1999. Pursuant to our exclusive co-branding agreement with Arthur Treacher's, we began test marketing Arthur Treacher's signature products in four company-owned Nathan's restaurants during September and October 1999. Based upon the success of these tests, we extended these co-branding efforts within company-owned units and made Arthur Treacher's products available to franchisees. At June 15, 2000 Arthur Treachers' products were featured in 14 Nathan's restaurants. Sales from the Branded Product Program increased to $2,163,000 during the fiscal 2000 period as compared to sales of $1,983,000 in the fiscal 1999 period.

Franchise fees and royalties increased by 82.8% or $2,676,000 to $5,906,000 in the fiscal 2000 period compared to $3,230,000 in the fiscal 1999 period. Increases in franchise income resulting from the acquisitions made during the fiscal 2000 period were $2,685,000. Nathans' franchise royalties increased by $60,000 or 2.2% to $2,758,000 in the fiscal 2000 period as compared to $2,698,000 in the fiscal 1999 period. Franchise restaurant sales of the Nathan's brand increased by 2.0% to $65,458,000 in the fiscal 2000 period as compared to $64,178,000 in the fiscal 1999 period. At March 26, 2000, there were 415 franchised or licensed restaurants within the franchise system, including 160 Nathan's locations. Franchise fee income derived from Nathan's restaurant openings was $463,000 in the fiscal 2000 period as compared to $532,000 in the fiscal 1999 period. This decrease was primarily attributable to the difference between the number and types of franchised units opened between the two periods. During the fiscal 2000 period, 21 new Nathan's franchised or licensed units opened, including two units in Egypt.

License royalties were $1,906,000 in the fiscal 2000 period as compared to $1,527,000 in the fiscal 1999 period. Increases in license royalties resulting from the acquisitions made during the fiscal 2000 period were $86,000. The majority of the remaining increase is attributable to sales by SMG, Inc., our licensee for the sale of Nathan's frankfurters within supermarkets and club stores. Royalties from the sale of proprietary spices and marinade were approximately $184,000 in the fiscal 2000 period as compared to $112,000 in the fiscal 1999 period

Equity in (losses) earnings of unconsolidated affiliate of ($163,000), represents our proportionate share of Miami Subs' net loss for the period March 1, 1999 through the date of the merger on September 30, 1999. Included in Miami Subs' net loss for that period were merger costs of $325,000.

Investment and other income was $600,000 in the fiscal 2000 period versus $400,000 in the fiscal 1999 period. Increased other income attributable to the acquisitions made during the fiscal 2000 period were $308,000. During the fiscal 2000 period our marketable investment securities earned approximately $132,000 more than the prior fiscal year. This was due to earning less interest income than the fiscal 1999 period due primarily to the reduced amount of our fixed income securities which was more than offset by the difference in performance of the equity markets between the two periods. Additionally, we earned approximately $118,000 less miscellaneous income during the fiscal 2000 period as compared to the fiscal 1999 period and recognized a loss of approximately $123,000 on the disposal of fixed assets.

Costs and Expenses

Cost of sales increased by $4,045,000 from $14,932,000 in the fiscal 1999 period to $18,977,000 in the fiscal 2000 period. Of the total increase, cost of sales increased by $4,831,000 as a result of the acquisitions made during the fiscal 2000 period. Higher costs of approximately $194,000 were incurred in connection with the Nathan's Branded Product Program. Restaurant cost of sales associated with the Nathan's brand were lower due primarily to the closure of two company-owned Nathan's restaurants during the fiscal 1999 period, the closure of three unprofitable company-owned Nathan's restaurants during the fiscal 2000 period and the franchising of three company-owned Nathan's units during the fiscal 2000 period which were partly offset by the exclusion of costs of operating the Nathan's Kings Plaza restaurant which was being renovated during fiscal 1999. Our cost of restaurant sales for the Nathan's brand was 60.5% of restaurant sales in the fiscal 2000 period as compared to 61.0% of restaurant sales in the fiscal 1999 period. The decrease, as a percentage of restaurant sales, is due partly to the increase in the amount of the average check over the prior period and lower costs of food and labor as a percentage of restaurant sales during the fiscal 2000 period. We continue to seek to operate more efficiently as a means to minimize the margin pressures which have become an integral part of competing in the current value conscious marketplace.

Restaurant operating expenses increased by $2,428,000 from $5,780,000 in the fiscal 1999 period to $8,208,000 in the fiscal 2000 period. Of the total increase, restaurant operating expenses increased by $2,366,000 as a result of the acquisitions made this year. Restaurant operating expenses associated with the Nathan's brand were $5,842,000 during the fiscal 2000 period versus $5,780,000 during the fiscal 1999 period. This increase in restaurant operating costs was due primarily to higher costs of operating the restaurant that was renovated last year of approximately $146,000, higher occupancy costs of approximately $107,000, higher insurance costs of approximately $68,000 and higher marketing costs of approximately $138,000, which were partly offset by lower costs due to operating fewer company-owned restaurants of approximately $430,000.

Depreciation and amortization increased by $293,000 from $1,065,000 in the fiscal 1999 period to $1,358,000 in the fiscal 2000 period. Depreciation expense increased as a result of the acquisitions made during the fiscal 2000 period by $323,000.

Amortization of intangible assets increased by $332,000 from $384,000 in the fiscal 1999 period to $716,000 in the fiscal 2000 period. This increase is due to the amortization, based upon the preliminary purchase price allocations, of the Kenny Rogers Roasters intellectual property acquired on April 1, 1999 and the Miami Subs acquisition on September 30, 1999.

General and administrative expenses increased by $3,500,000 to $8,222,000 in the fiscal 2000 period as compared to $4,722,000 in the fiscal 1999 period. Of the total increase, general and administrative expenses increased by $2,692,000 as a result of the acquisitions made during the fiscal 2000 period. General and administrative expenses, excluding the impact of Miami Subs and Kenny Rogers Roasters, increased by $808,000 or 17.1% primarily due to increased compensation expense of $339,000, increased provisions for doubtful accounts of approximately $262,000, higher professional fees for legal, audit and tax services of approximately $148,000 and approximately $76,000 associated with costs in connection with the migration of the Miami Subs support functions to New York which commenced effective March 27, 2000.

Interest expense of $198,000 primarily relates to assumed indebtedness as of the date of the acquisition. Since the acquisition, we have repaid notes totaling approximately $1,929,000 and therefore anticipate lower interest expense in the future.

Impairment charges on notes receivable of $840,000, reflects write-downs on six notes receivable.

Impairment charges on fixed assets of $465,000 during the fiscal 2000 period and $302,000 during the fiscal 1999 period reflect write-downs relating to three under-performing stores in the fiscal 2000 period and four under-performing stores in the fiscal 1999 period.

Other expense (income) of $427,000 during the fiscal 2000 period includes approximately $191,000 in lease expense resulting from the default of subleases and $236,000 in connection with the satisfaction of certain financial guarantees, compared to the prior fiscal year when we reversed previous litigation accruals in the amount of $349,000 resulting from the conclusion of the associated litigation.

Income Taxes

In the fiscal 2000 period, the income tax benefit was ($250,000) or (16.4%) of loss before income taxes as compared to the income tax benefit of ($418,000) or (18.1%) of income before taxes in the fiscal 1999 period. During fiscal 1999 management determined that, based upon the facts and circumstances at the time, it was more likely than not that a portion of our deferred tax assets would be realized. Accordingly, we reduced our valuation allowance by $1,443,000 in fiscal 1999. The fiscal 1999 provision before adjustment for the valuation allowance was $1,025,000 or 44.4% of income before taxes. Management will continue to monitor the likelihood of continued realizability of its deferred tax asset and may, if deemed appropriate under the facts and circumstances at that time, recognize further adjustments to our deferred tax valuation allowance in accordance with Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes."

Liquidity and Capital Resources

Cash and cash equivalents at March 25, 2001 aggregated $4,325,000, increasing by $1,928,000 during the fiscal 2001 period. At March 25, 2001, marketable securities and investment in limited partnership totaled $4,648,000 and net working capital increased to $5,210,000 from a deficit of $147,000 at March 26, 2000. Cash and cash equivalents at March 25, 2001 included $2,104,000 held on behalf of the Miami Subs Advertising Funds. A corresponding accrual has been recorded within accrued expenses and other current liabilities.

Cash provided by operations of $4,149,000 in the fiscal 2001 period is primarily attributable to net income of $1,606,000, non-cash charges of $3,490,000, including depreciation and amortization of $2,630,000, impairment charges of $278,000, deferred income taxes of $313,000 and allowance for doubtful accounts of $191,000, in addition to an increase in other non-current liabilities of $1,329,000, increases in accounts payable and accrued expenses and other current liabilities of $961,000, decreases in other assets of $159,000, all of which were partially offset by an increase in marketable securities and investment in limited partnership of $1,651,000, an increase in notes and accounts receivables of $1,350,000, an increase in prepaid expenses and other current assets of $339,000 and a decrease in deferred franchise fees of $76,000. During fiscal 2001, Nathan's received a marketing advance from its beverage supplier in connection with a newly executed marketing agreement.

Cash used in investing activities of $1,943,000 is comprised primarily of $1,458,000 relating to capital improvements of company-owned restaurants and other fixed asset additions, lease termination costs and other costs of $1,036,000 pursuant to our final divestiture plan in connection with our acquisition of Miami Subs, cash received on notes receivable of $506,000 and proceeds from the sale of assets of $45,000.

Cash used in financing activities of $278,000 represents repayments of notes payable and obligations under capital leases.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 15 of those properties. We are continuing to market two of the remaining properties for sale and will terminate the lease for the last unit upon the lease expiration in May 2002. As of March 25, 2001, we have accrued approximately $1,461,000 for lease reserves and termination costs, as part of the acquisition, for units with total future minimum lease obligations of $7,680,000 with remaining lease terms of 1 year up to approximately 17 years. We may incur future cash payments, consisting primarily of future lease payments including costs and expenses associated with terminating additional leases that were not part of our divestiture plan.

On May 1, 2001, pursuant to an order of condemnation, we sold a company-owned restaurant to the State of Florida for $1,500,000 and repaid the outstanding mortgage of approximately $793,000 plus accrued interest. Additionally, in June 2001, we expect to sell our restaurant in the Paramus Park Mall to a franchisee for $400,000 in cash and concurrently enter into a sub-lease for the property.

We expect that we will reinvest in certain existing restaurants in the future and that we will fund those investments from our operating cash flow. We do not currently expect to incur significant capital expenditures to develop new company-owned restaurants.

We also guarantee certain equipment financing for franchisees with a third party lender. Our maximum obligation for loans funded by the lender as of March 25, 2001 was approximately $1.3 million.

Management believes that available cash, marketable investment securities, and internally generated funds should provide sufficient capital to finance our operations for at least the next twelve months. We maintain a $7,500,000 uncommitted bank line of credit and have not borrowed any funds to date under this line of credit.

Seasonality

Our business is affected by seasonal fluctuations, the effects of weather and economic conditions. Historically, sales and earnings have been highest during our first two fiscal quarters with the fourth fiscal quarter representing the slowest period. This seasonality is primarily attributable to weather conditions in our marketplace for our company-owned Nathan's stores, which is principally the New York metropolitan area. Miami Subs' restaurant sales have historically been strongest during the period March through August, which approximates our first and second quarters, as a result of a heavy concentration of restaurants being located in Florida. As a result, we believe that future revenues may become slightly more seasonal.

Impact of Inflation

During the past several years, our commodity costs have remained relatively stable. As such, we believe that inflation has not materially impacted earnings during that period of time. Last year we experienced increased costs of our meat products and utilities resulting from increased commodity costs. We also experienced increased costs for insurance attributable to the hardening of the insurance markets. Last year, various legislators proposed additional changes to the minimum wage requirements. During 2000, different bills were passed by the Senate and the House of Representatives proposing to further increase the Federal minimum wage, although, no legislation was passed. At this time, there are

no pending Federal minimum wage proposals, however, we believe that there will be continued pressure to pass new Federal minimum wage legislation in the future. We further believe that any further increases in the minimum wage could have a significant financial impact on us. Prolonged increases in labor, food and other operating expenses could adversely affect our operations and those of the restaurant industry and we might have to reconsider our pricing strategy as a means to offset reduced operating margins.

Adoption of New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal years beginning after June 15, 2000 and will not require retroactive restatement of prior period financial statements. This statement requires the recognition of all derivative instruments as either assets or liabilities in the balance sheet, measured at fair value. Derivative instruments will be recognized as gains or losses in the period of change. The adoption of SFAS No. 133 will not have a material impact on our financial position or results of its operations as we do not presently make use of derivative instruments.

In December 1999, the SEC staff released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB No. 101 explains the SEC staff's general framework for recognizing revenue, specific criteria to be met, along with required disclosures related to revenue recognition. SAB No. 101 did not have a material impact on our financial position or results of operations.

Forward-Looking Statements

Certain statements contained in this report are forward-looking statements. Forward-looking statements represent our current judgment regarding future events. Although we would not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which we are not aware. These risks and uncertainties, many of which are not within our control, include, but are not limited to: economic, weather, legislative and business conditions; the availability of suitable restaurant sites on reasonable rental terms; changes in consumer tastes; ability to continue to attract franchisees; the ability to purchase its primary food and paper products at reasonable prices; no material increases in the minimum wage; and our ability to attract competent restaurant and managerial personnel. We generally identify forward-looking statements with the words "believe," "intend," "plan," "expect," "anticipate," "estimate," "will," "should" and similar expressions.

Consolidated Balance Sheets

(in thousands, except share amounts)

	March 25, 2001	March 26, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 4,325**	$ 2,397
Marketable securities and investment in limited partnership	**4,648**	2,997
Notes and accounts receivable, net	**4,178**	2,618
Inventories	**523**	543
Assets available for sale	**1,510**	175
Prepaid expenses and other current assets	**974**	635
Deferred income taxes	**1,714**	1,578
Total current assets	**17,872**	10,943
Notes receivable, net	**1,729**	2,527
Property and equipment, net	**11,279**	11,655
Assets available for sale	**450**	3,092
Intangible assets, net	**18,011**	19,092
Deferred income taxes	**2,081**	711
Other assets, net	**404**	563
	$51,826	$48,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of notes payable and capital lease obligations	**$ 1,343**	$ 279
Accounts payable	**1,978**	1,727
Accrued expenses and other current liabilities	**8,731**	8,398
Deferred franchise fees	**610**	686
Total current liabilities	**12,662**	11,090
Notes payable and capital lease obligations, less current maturities	**1,789**	3,131
Other liabilities	**2,344**	1,015
Total liabilities	**16,795**	15,236
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Common stock, $.01 par value; 30,000,000 shares authorized, 7,065,202 and 7,040,196 issued and outstanding at March 25, 2001 and March 26, 2000, respectively	**71**	70
Additional paid-in capital	**40,746**	40,669
Accumulated deficit	**(5,786)**	(7,392)
Total stockholders' equity	**35,031**	33,347
	$51,826	$48,583

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations

(in thousands, except share and per share amounts)

	For the Fiscal Year Ended		
	March 25, 2001	March 26, 2000	March 28, 1999
Revenues:			
Sales	**$34,799**	$29,642	$23,964
Franchise fees and royalties	**8,814**	5,906	3,230
License royalties	**1,958**	1,906	1,527
Equity in (losses) earnings of unconsolidated affiliate	**—**	(163)	26
Investment and other income	**1,603**	600	400
Total revenues	**47,174**	37,891	29,147
Costs and Expenses:			
Cost of sales	**22,530**	18,977	14,932
Restaurant operating expenses	**8,964**	8,208	5,780
Depreciation and amortization	**1,791**	1,358	1,065
Amortization of intangible assets	**839**	716	384
General and administrative expenses	**8,978**	8,222	4,722
Interest expense	**310**	198	1
Impairment charge on notes receivable	**151**	840	—
Impairment charge on long-lived assets	**127**	465	302
Other expense (income), net (Note 11)	**462**	427	(349)
Total costs and expenses	**44,152**	39,411	26,837
Income (loss) before provision (benefit) for income taxes	**3,022**	(1,520)	2,310
Provision (benefit) for income taxes (Note 12)	**1,416**	(250)	(418)
Net income (loss)	**$ 1,606**	$ (1,270)	$ 2,728
Per Share Information (Note 4):			
Net income (loss) per share:			
Basic	**$ .23**	$ (.22)	$ .58
Diluted	**$ .23**	$ (.22)	$ .57
Weighted average shares used in computing net income (loss) per share:			
Basic	**7,059,000**	5,881,000	4,722,000
Diluted	**7,098,000**	5,881,000	4,753,000

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)

	Common Shares	Common Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
Balance, March 29, 1998	4,722,216	$47	$ 32,423	$(34)	$ (8,850)	$ 23,586
Amortization of deferred compensation relating to restricted stock	—	—	—	34	—	34
Net income	—	—	—	—	2,728	2,728
Balance, March 28, 1999	4,722,216	47	32,423	—	(6,122)	26,348
Common stock issued in connection with merger	2,317,980	23	7,367	—	—	7,390
Warrants issued in connection with merger	—	—	330	—	—	330
Options assumed in connection with merger	—	—	549	—	—	549
Net loss	—	—	—	—	(1,270)	(1,270)
Balance, March 26, 2000	7,040,196	70	40,669	—	(7,392)	33,347
Stock compensation	25,000	1	77	—	—	78
Warrants exercised	6	—	—	—	—	—
Net income	—	—	—	—	1,606	1,606
Balance, March 25, 2001	**7,065,202**	**$71**	**$40,746**	**$ —**	**$(5,786)**	**$35,031**

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

(in thousands)

	For the Fiscal Year Ended		
	March 25, 2001	March 26, 2000	March 28, 1999
Cash Flows From Operating Activities:			
Net income (loss)	**$ 1,606**	$(1,270)	$ 2,728
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**1,791**	1,358	1,065
Amortization of intangible assets	**839**	716	384
Amortization of deferred compensation	**—**	—	34
Loss on disposal of fixed assets	**—**	123	—
Stock compensation expense	**78**	—	—
Impairment of long-lived assets	**127**	465	302
Impairment of notes receivable	**151**	840	—
Provision for doubtful accounts	**191**	895	44
Equity in losses/(earnings) of unconsolidated affiliate	**—**	163	(26)
Deferred income taxes	**313**	(958)	(1,036)
Changes in operating assets and liabilities, net of effects from acquisition of Miami Subs:			
Marketable securities and investment in limited partnership	**(1,651)**	270	5,247
Notes and accounts receivable	**(1,350)**	(504)	(646)
Inventories	**20**	3	(18)
Prepaid expenses and other current assets	**(339)**	(187)	(268)
Other assets	**159**	182	—
Accounts payable, accrued expenses and other current liabilities	**961**	(158)	(1,177)
Deferred franchise fees	**(76)**	721	97
Other liabilities	**1,329**	(682)	50
Net cash provided by operating activities	**4,149**	1,977	6,780
Cash Flows From Investing Activities:			
Cash acquired in connection with merger, net of transaction costs	**—**	3,429	—
Lease terminations and other costs in connection with acquisition	**(1,036)**	—	—
Purchases of property and equipment	**(1,458)**	(1,975)	(1,485)
Purchase of intellectual property	**—**	(1,590)	—
Investment in unconsolidated affiliate	**—**	—	(4,415)
Payments received on notes receivable	**506**	320	—
Proceeds from sale of restaurant	**45**	—	—
Net cash provided by (used in) investing activities	**(1,943)**	184	(5,900)
Cash Flows From Financing Activities:			
Principal repayments of borrowing	**(278)**	(1,929)	(21)
Net cash used in financing activities	**(278)**	(1,929)	(21)
Net change in cash and cash equivalents	**1,928**	232	859
Cash and Cash Equivalents, beginning of year	**2,397**	2,165	1,306
Cash and Cash Equivalents, end of year	**$ 4,325**	$ 2,397	$ 2,165
Cash Paid During the Year For:			
Interest	**$ 317**	$ 207	$ 1
Income taxes	**$ 1,508**	$ 831	$ 218
Noncash Financing Activities:			
Loan to franchisee in connection with sale of restaurant	**$ 130**	$ —	$ —
Common stock, warrants and options issued in connection with acquisition	**$ —**	$ 8,269	$ —

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

1. Description and Organization of Business

Description of Business

Nathan's Famous, Inc. and Subsidiaries (collectively the "Company" or "Nathan's") has historically operated a chain of retail fast food restaurants featuring Nathan's famous brand of all beef frankfurters, fresh crinkle-cut french fried potatoes, and a variety of other menu offerings. Since fiscal 1998, the Company has supplemented Nathan's franchise program with the Nathan's Branded Product Program, which enables foodservice retailers to sell some of Nathan's proprietary products outside of the realm of a traditional franchise relationship. During fiscal 2000, the Company acquired the intellectual property rights, including trademarks, recipes and franchise agreements of Roasters Corp. and Roasters Franchise Corp. ("Roasters"), the franchisor of Kenny Rogers Roasters. In addition, Nathan's completed a merger with Miami Subs Corporation ("Miami Subs") whereby it acquired the remaining 70% of Miami Subs common stock not already owned. Miami Subs features a wide variety of lunch, dinner and snack foods, including hot and cold sandwiches and various ethnic foods. Roasters features home-style family foods based on a menu centered around wood-fire rotisserie chicken.

At March 25, 2001, the Company's restaurant system, consisting of Nathan's Famous, Kenny Rogers Roasters and Miami Subs restaurants, included 25 company-owned units concentrated in the New York metropolitan area, (including New Jersey and Florida), 386 franchised or licensed units, including 4 units operating pursuant to management agreements and over 1,200 branded product points of sale under the Nathan's Branded Product Program, located in 42 states, the District of Columbia, and 16 foreign countries.

Organization of Business

In July 1987, all of the outstanding shares, options and warrants of Nathan's Famous, Inc. (the "Predecessor Company"), a then publicly held New York corporation, were acquired through a cash transaction, accounted for by the purchase method of accounting (the "Acquisition"). In connection with the Acquisition, a privately-held New York corporation (the "Acquiring Corporation") was merged into the Predecessor Company. The purchase price exceeded the fair value of the acquired assets of the Predecessor Company by $15,374, and such amount is recorded net of accumulated amortization in the accompanying consolidated balance sheets.

In November 1989, the surviving corporation was merged with Nathan's Newco, Inc., a Delaware corporation which, upon the effectiveness of the merger, changed its name to Nathan's Famous, Inc. ("NFI").

In August 1992, Nathan's Famous Holding Corp. ("NFH"), a new Delaware corporation was formed. Pursuant to a merger agreement, NFI became a wholly-owned subsidiary of NFH. On December 15, 1992, NFI and NFH amended their charter to change their respective names to Nathan's Famous Operating Corp. ("NFOC") and Nathan's Famous, Inc.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Segment Disclosures

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures About Segments of an Enterprise and Related Information." Pursuant to this pronouncement, operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources in assessing performance. Nathan's considers its subsidiaries to be in the food service industry, and has pursued co-branding and co-hosting initiatives; accordingly management has evaluated the Company as one single reporting operating unit.

Fiscal Year

The Company's fiscal year ends on the last Sunday in March, which results in a 52 or 53 week reporting period. The results of operations for all periods presented are on the basis of a 52 week reporting period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash restricted for untendered shares associated with the Acquisition amounted to $83 at March 25, 2001 and March 26, 2000, and is included in cash and cash equivalents. At March 25, 2001 and March 26, 2000, cash and cash equivalents included unexpended Miami Subs' advertising funds of $2,104 and $509, respectively, with the offset classified as current liabilities in the accompanying consolidated balance sheets.

Impairment of Notes Receivable

In accordance with SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," Nathan's applies the provisions thereof to value notes receivable. Pursuant to SFAS No. 114, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When evaluating a note for impairment, the factors considered include: 1) indications that the borrower is experiencing business problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions, 2) loans secured by collateral that is not readily marketable or 3) that are susceptible to deterioration in realizable value. When determining impairment, management's assessment includes its intention to extend certain leases beyond the minimum lease term and the note holder's ability to meet its obligation over that extended term. In certain cases where Nathan's has determined that a loan has been impaired, it does not expect to extend or renew the underlying leases. Based on the Company's analysis, it has determined that there are notes that have incurred such an impairment (Note 5). Following is a summary of the impaired notes receivable:

	March 25, 2001	March 26, 2000
Total recorded investment in impaired notes receivable	**$1,105**	$1,830
Allowance for impaired notes receivable	**(613)**	(840)
Recorded investment in impaired notes receivable, net	**$ 492**	$ 990

Based on the present value of the estimated cash flows of identified impaired notes receivable, the Company has recognized approximately $63 and $44 of interest income on these notes for the fiscal years ended March 25, 2001 and March 26, 2000, respectively.

Inventories

Inventories, which are stated at the lower of cost or market value, consist primarily of restaurant food items, supplies, marketing items and equipment in connection with the Branded Product Program. Cost is determined using the first-in, first-out method.

Marketable Securities and Investment in Limited Partnership

The Company classifies its investments in marketable securities as "trading" in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Such securities are reported at fair value, with unrealized gains and losses included as a component of net income. Gains and losses on the disposition of securities are recognized on the specific identification method in the period in which they occur. Investment income in the trading limited partnership is based upon Nathan's proportionate share of the change in the underlying net assets of the partnership. The partnership invests primarily in publicly traded common stocks with a concentration in securities traded on exchanges in the United States.

Sales of Restaurants

The Company observes the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," which establishes accounting standards for recognizing profit or loss on sales of real estate. This Statement provides for profit recognition by the full accrual method, provided (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the seller is not obliged to perform significant activities after the sale to earn the profit. Unless both conditions exist, recognition of all or part of the profit shall be postponed and other methods of profit recognition shall be followed. In accordance with this Statement, the Company recognizes profit on sales of restaurants under both the installment method and the deposit method, depending on the specific terms of each sale.

During fiscal 2000, the Company entered into contracts to sell six restaurants in two separate transactions, for an aggregate sales price of $1,775. The sales price consists of down payments totaling $230, and the issuance of notes receivable by the buyers totaling $1,545. In accordance with the SFAS No. 66, profit from these sales is being recognized under the deposit method. For the fiscal years ended March 25, 2001 and March 26, 2000, no revenue related to these sales has been recognized and the notes receivable have not been recorded. The Company continues to record depreciation expense on the property subject to the sales contracts and records any principal payments received as a deposit until such time that the transaction meets the sales criteria of SFAS No. 66. As of March 25, 2001 and March 26, 2000, the Company has deposits of $332 and $231, respectively and are included in accrued expenses in the accompanying consolidated balance sheets.

In June 2001, the Company entered into a sales contract to sell one restaurant for a total cash purchase price of $400. Concurrent with the agreement for sale, the Company shall enter into a sub-lease agreement with this franchisee.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated primarily on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term of the related asset. The Company suspends depreciation and amortization on assets related to restaurants that are held for sale. The estimated useful lives are as follows:

Building and improvements	5–25 years
Machinery, equipment, furniture and fixtures	5–15 years
Leasehold improvements	5–20 years

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," impairment losses are recorded on long-lived assets on a restaurant by restaurant basis whenever impairment factors are determined to be present. The Company considers a history of restaurant operating losses to be its primary indicator of potential impairment for individual restaurant locations. The Company has identified one, three and four units that have been impaired, and recorded charges of $127, $465 and $302 to the statements of operations for the fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively.

Intangible Assets

Intangible assets consist of (i) the goodwill resulting from the Acquisition; (ii) trademarks and tradenames, franchise rights and recipes in connection with Roasters and (iii) goodwill and certain identifiable intangibles resulting from the Miami Subs acquisition (Note 3). These intangible assets are being amortized over periods from 10 to 40 years. The Company periodically reviews intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. Management believes that there is no impairment with respect to such intangible assets as of March 25, 2001.

Investment in Unconsolidated Affiliate

The Company accounted for its initial investment in Miami Subs under the equity method of accounting until the completion of the merger. Accordingly, the carrying value of the investment, prior to the acquisition, was equal to the Company's initial cash investment in Miami Subs, plus its share of the loss of Miami Subs through September 30, 1999.

Fair Value of Financial Instruments

The Company accounts for the fair value of its financial instruments in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The carrying value of all financial instruments reflected in the accompanying balance sheets approximated fair value at March 25, 2001 and March 26, 2000, respectively.

Stock-Based Compensation

The Company complies with the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." This statement establishes financial accounting and reporting standards for stock-based employee compensation plans. The provisions of SFAS No. 123 encourage entities to adopt a fair value based method of accounting for stock compensation plans; however, these provisions also permit the Company to continue to measure compensation costs under pre-existing accounting pronouncements. Pursuant to SFAS No. 123, the Company has elected to continue the accounting set forth in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and to provide the necessary pro forma disclosures (Note 13).

Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distributions to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other nonowner changes in equity (or other comprehensive income), such as unrealized gains or losses on securities classified as available for sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive income must be reported on the face of the consolidated statements of operations or the consolidated statements of stockholders' equity. The Company's operations did not give rise to items includable in comprehensive income, which were not already in net income (loss) for the three fiscal years in the period ended March 25, 2001. Accordingly, the Company's comprehensive income is the same as its net income for all years presented.

Start-Up Costs

The Company accounts for pre-opening and similar costs in accordance with Statement of Position ("SOP") 98-5 "Reporting on the Costs of Start-up Activities" which required companies to expense all those costs as incurred in the future.

Revenue Recognition

In December 1999, the SEC staff released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB No. 101 explains the SEC staff's general framework for recognizing revenue, specific criteria to be met, along with required disclosures related to revenue recognition. SAB No. 101 did not have a material impact on the Company's financial position or results of its operations.

Franchise and Area Development Fee Revenue Recognition

In connection with its franchising operations, the Company receives initial franchise fees, development fees, royalties, contributions to marketing funds, and in certain cases, revenue from sub-leasing restaurant properties to franchisees. Initial franchise fees are recognized as income when substantially all services and conditions relating to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations. Development fees are non-refundable and the related agreements require the franchisee to open a specified number of restaurants in the development area within a specified time period or the agreements may be canceled by the Company. Revenue from development agreements is deferred and recognized as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open, or at the time the development agreement is effectively canceled. Royalties, which are based upon a percentage of the franchisee's gross sales, are recognized as income when the fees are earned and become receivable and collectible. Revenue from sub-leasing properties to franchisees is recognized as income as the revenue is earned and becomes receivable and collectible. Sublease rental income is presented net of associated lease costs in the accompanying consolidated financial statements. Franchise and area development fees received prior to completion of the revenue recognition process are recorded as deferred revenue.

At March 25, 2001 and March 26, 2000, $610 and $686, respectively, of deferred franchise fees are included in the accompanying consolidated balance sheets.

Concentrations of Credit Risk

The Company's accounts receivable consist principally of receivables from franchisees for royalties and advertising contributions and from sales under the Branded Product Program. At March 25, 2001, one franchisee represented 10% of franchise royalties receivable and at March 26, 2000, two franchisees each represented approximately 11% of franchise royalties receivable (Note 5).

Advertising

The Company administers various advertising funds on behalf of its subsidiaries and franchisees to coordinate the marketing efforts of the Company. Under these arrangements, the Company collects and disburses fees paid by franchisees and Company-owned stores for national and regional advertising, promotional and public relations programs. Contributions are based on specified percentages of net sales, generally ranging up to 3%. Advertising contributions from Company-owned stores are included in restaurant operating expenses in the accompanying consolidated statements of operations. Net Company-owned store advertising expense was $1,602, $888, and $436 for the fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

Reclassifications

Certain prior year balances have been reclassified to conform with current year presentation.

Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal years beginning after June 15, 2000 and will not require retroactive restatement of prior period financial statements. This statement requires the recognition of all derivative instruments as either assets or liabilities in the balance sheet, measured at fair value. Derivative instruments will be recognized as gains or losses in the period of change. The adoption of SFAS No. 133 will not have a material impact on its financial position or results of its operations as the Company does not presently make use of derivative instruments.

3. Acquisitions

On February 19, 1999, the U. S. Bankruptcy Court for the Middle District of North Carolina, Durham Division, confirmed the Joint Plan of Reorganization of the Official Committee of Franchisees of Roasters Corp. and Roasters Franchise Corp., operators of Kenny Rogers Roasters Restaurants. Under the Joint Plan of Reorganization, on April 1, 1999, Nathan's acquired the intellectual property rights, including trademarks, recipes and franchise agreements, of Roasters Corp. and Roasters Franchise Corp. for $1,250 in cash plus related expenses of approximately $340. NF Roasters Corp., a wholly-owned subsidiary, was created for the purpose of acquiring these assets. The acquired assets are recorded as intangibles in the accompanying consolidated balance sheet and are being amortized on a straight-line basis over periods of 10 to 20 years. No company-owned restaurants were acquired in this transaction. Results of operations are included in these consolidated financial statements as of April 1, 1999. On November 17, 1999, NF Roasters acquired two restaurants from a franchisee for approximately $400, which opened in March and April 2000.

On November 25, 1998, the Company acquired 8,121,000 (2,030,250 after giving effect to a 4 for 1 reverse stock split) shares, or approximately 30% of the then outstanding common stock, of Miami Subs Corporation for $4,200, excluding transaction costs. On January 15, 1999, the Company and Miami Subs entered into a definitive merger agreement pursuant to which Nathan's would acquire the remaining outstanding shares of Miami Subs in exchange for shares of and warrants to purchase Nathan's common stock.

On September 30, 1999, Nathan's completed the acquisition of Miami Subs and acquired the remaining outstanding common stock of Miami Subs in exchange for 2,317,980 shares of Nathan's common stock, 579,040 warrants to purchase Nathan's common stock, and the assumption of existing employee options and warrants to purchase 542,284 shares of Miami Subs' common stock in connection with the merger. The total purchase price was approximately $13,000, including acquisition costs. The acquisition was accounted for as a purchase under APB Opinion No. 16, "Accounting for Business Combinations." In accordance with APB No. 16, the Company allocated the purchase price of Miami Subs based on the fair value of the assets acquired and liabilities assumed. Goodwill of $1,668 resulted from the acquisition of Miami Subs and is being amortized over a period of 20 years.

In connection with the acquisition of Miami Subs, Nathan's planned to permanently close 18 under-performing company-owned restaurants. Nathan's expected to abandon or sell the related assets at amounts below the historical carrying amounts recorded by Miami Subs. In accordance with APB No. 16, the write-down of these assets was reflected as part of the purchase price allocation. To date the Company has closed or sold 15 units. The Company continues to market two of these properties for sale and will cease operations of the remaining unit upon lease expiration. The estimated disposal value is included in assets held for sale in the accompanying consolidated balance sheet for the remaining units to be sold. As of March 25, 2001, as part of the acquisition, the Company has recorded approximately $1,461 ($877 after tax) for lease reserves and termination costs.

The allocation of purchase price is as follows:

Current assets	$ 5,481
Property and equipment	7,060
Assets held for sale	653
Intangibles	5,441
Goodwill	1,668
Notes receivable—long-term	3,860
Other assets	2,212
Liabilities assumed	(13,364)
Total	$ 13,011

The consolidated results of operations for Miami Subs are included in the consolidated financial statements as of the date of acquisition. Summarized below are the unaudited pro forma results of operations for the fifty-two weeks ended March 26, 2000 and March 28, 1999 of Nathan's as though the Miami Subs acquisition had occurred as of the beginning of the periods presented. Adjustments have been made for amortization of goodwill based upon salary expense based on employment agreements, reversal of Miami Subs merger costs, elimination of Nathan's 30% equity earnings in Miami Subs, issuance of common stock, and reduction of interest income on marketable securities used to purchase the initial 30% of Miami Subs' common stock.

	Fifty-Two Weeks Ended	
	March 26, 2000	March 28, 1999
	Unaudited	
Total revenues	$50,455	$53,278
Net (loss) income	$(1,466)	$ 3,436
Net (loss) income per share:		
Basic	$ (.21)	$ 0.49
Diluted	$ (.21)	$ 0.49
Weighted average shares used in computing net (loss) income per share		
Basic	7,040,000	7,040,000
Diluted	7,040,000	7,071,000

These pro forma results of operations have been prepared for comparative purposes only and are not necessarily indicative of actual results of operations that would have occurred had the acquisition been made at the beginning of the periods presented or of the results which may occur in the future.

4. Net Income (Loss) Per Share

The Company complies with the provisions of SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, Basic Earnings Per Share is computed based on weighted average shares outstanding and excludes any potential dilution; Diluted Earnings Per Share reflects potential dilution from the exercise or conversion of securities into common stock or from other contracts to issue common stock.

The following chart provides a reconciliation of information used in calculating the per share amounts for the years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively:

	Net Income (Loss)			Shares			Net Income (Loss) Per Share		
	2001	2000(1)	1999	**2001**	2000(1)	1999	**2001**	2000(1)	1999
Basic EPS									
Basic calculation	**$1,606**	$(1,270)	$2,728	**7,059,000**	5,881,000	4,722,000	**$.23**	$(.22)	$ .58
Effect of dilutive employee stock options and warrants	**—**	—	—	**39,000**	—	31,000	**—**	—	(.01)
Diluted EPS									
Diluted calculation	**$1,606**	$(1,270)	$2,728	**7,098,000**	5,881,000	4,753,000	**$.23**	$(.22)	$ .57

(1) Common stock equivalents have been excluded from the computation for earnings per share for the year end March 26, 2000 as their inclusion would be anti-dilutive.

5. Notes and Accounts Receivable, net

Notes and accounts receivable, net, consists of the following:

	2001	2000
Notes receivable, net of impairment charges	**$2,874**	$3,226
Franchise and license royalties	**2,499**	2,110
Branded product sales	**730**	365
Other	**684**	253
	6,787	5,954
Less: allowance for doubtful accounts	**880**	809
Notes receivable due after one year	**1,729**	2,527
Notes and accounts receivable	**$4,178**	$2,618

Notes receivable at March 25, 2001 and March 26, 2000 principally resulted from sales of restaurant businesses to Miami Subs franchisees and are generally guaranteed by the purchaser and collateralized by the restaurant businesses and assets sold. The notes are generally due in monthly installments of principal and interest with a balloon payment at the end of the term, with interest rates ranging principally between 8% and 12%.

6. Marketable Securities and Investment in Limited Partnership

Marketable securities at March 25, 2001 and March 26, 2000 consisted of trading securities with aggregate fair values of $4,648 and $2,997, respectively. Fair values of corporate and municipal bonds are based upon quoted market prices. Investment income in trading limited partnerships is based on the Company's proportionate share of the change in the underlying net assets of the partnership.

The gross unrealized holding gains and fair values of trading securities by major security type at March 25, 2001, March 26, 2000 and March 28, 1999 were as follows:

	2001		2000		1999	
	Gross Unrealized Holding Gain/(Loss)	**Fair Value of Investments**	Gross Unrealized Holding Gain/(Loss)	Fair Value of Investments	Gross Unrealized Holding Gain/(Loss)	Fair Value of Investments
Corporate bonds	**$ —**	**$ —**	$ —	$ —	$ 1	$ 219
Municipal bonds	**16**	**3,628**	3	1,540	63	2,011
Investment in trading limited partnerships*	**(438)**	**1,020**	420	1,457	23	1,037
	$(422)	**$4,648**	$423	$2,997	$87	$3,267

**Subject to the terms of the partnership, the Company has the right to liquidate its investment in the trading limited partnerships without penalty.*

7. Property and Equipment, net

Property and equipment consist of the following:

	2001	2000
Construction in progress	**$ 141**	$ 1,055
Land	**1,983**	1,983
Building and improvements	**3,083**	3,537
Machinery, equipment, furniture and fixtures	**7,202**	6,167
Leasehold improvements	**7,949**	6,891
	20,358	19,633
Less: accumulated depreciation and amortization	**9,079**	7,978
	$11,279	$11,655

Included in property and equipment, net, is approximately $1,395 and $1,459, respectively, of assets subject to sales contracts and $299 for the Paramus location for which the Company has agreed to sell (Note 2).

In May 2001, the Company completed the sale of a restaurant property for approximately $1.5 million pursuant to an order of condemnation by the State of Florida ("State") and will continue to operate the restaurant for 6 months pursuant to an operating lease with the State. The fair value of the assets (which approximated the carrying value) is included in the current portion of assets available for sale at March 25, 2001 and the net book value of these assets have been reclassified to assets available for sale as of March 26, 2000 in the accompanying consolidated balance sheets. Concurrent with the sale, the Company satisfied the related note payable and accordingly has classified the remaining balance at March 25, 2001 as current in the accompanying consolidated balance sheets.

8. Intangible Assets, net

Intangible assets consist of the following:

	2001	2000
Goodwill	**$17,043**	$17,477
Trademark, tradename, franchise rights and recipes	**7,031**	6,839
	24,074	24,316
Less: accumulated amortization	**6,063**	5,224
Intangible assets, net	**$18,011**	$19,092

Amortization expense related to these intangible assets was $839, $716 and $384 for each of the three fiscal years ended March 25, 2001.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 25, 2001	March 26, 2000
Payroll and other benefits	**$1,365**	$1,536
Professional and legal costs	**898**	1,240
Insurance	**825**	837
Rent, occupancy and sublease termination costs	**1,236**	1,846
Taxes payable	**512**	443
Unexpended advertising funds	**2,104**	509
Other	**1,791**	1,987
	$8,731	$8,398

10. Notes Payable and Capitalized Lease Obligations

A summary of notes payable and capitalized lease obligations is as follows:

	2001	2000
Note payable to bank at 8.5% through January 2003 and adjusting to prime plus 0.25% in 2003, 2006, and 2009 and maturity in 2010	**$ 1,505**	$1,667
Note payable to bank at 8.0% through January 2002 adjusting to prime plus 0.25% in 2002 and 2005 and maturing in 2008	**806**	869
Note payable to bank at 1.5% over prime (9.5% at March 25, 2001) and maturing in 2001	**354**	389
Note payable to bank at 8.75% and maturing in 2003	**397**	406
Capital lease obligations and other	**70**	79
Total	**3,132**	3,410
Less current portion	**(1,343)**	(279)
Long-term portion	**$ 1,789**	$3,131

The above notes are secured by property and equipment with a book value of approximately $784 at March 25, 2001, and notes and accounts receivable of approximately $1 million.

At March 25, 2001, the approximate annual maturities of notes payable and capitalized lease obligations for each of the next five years are $1,343, $563, $173, $173 and $173, and $707 thereafter.

The Company also maintains a $7,500 line of credit with its primary banking institution. Borrowings under the line of credit are intended to be used to meet the normal short-term working capital needs of the Company. The line of credit is not a commitment and, therefore, credit availability is subject to ongoing approval. The line of credit expires on October 1, 2001, and bears interest at the prime rate. There were no borrowings outstanding under this line of credit as of March 25, 2001.

11. Other Expense (Income), net

Included in other expense (income), in the accompanying consolidated statements of operations is (i) $463 in lease termination costs for the year ended March 25, 2001, (ii) $236 in connection with the satisfaction of certain financial guarantees and $191 in lease expense resulting from the default of subleases for the year ended March 26, 2000 and (iii) the reversal of a previous litigation accrual of $349 for the year ended March 28, 1999.

12. Income Taxes

Income tax expense (benefit) consists of the following for the years ended March 25, 2001, March 26, 2000 and March 28, 1999:

	2001	2000	1999
Federal:			
Current	**$ 868**	$ 461	$ 453
Deferred	**246**	(719)	297
	1,114	(258)	750
State and local:			
Current	**235**	247	165
Deferred	**67**	(239)	110
	302	8	275
Adjustment to valuation allowance relating to opening net deferred tax asset	**—**	—	(1,443)
	$1,416	$(250)	$ (418)

Total income tax (benefit) expense for fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999 differed from the amounts computed by applying the United States Federal income tax rate of 34% to income before income taxes as a result of the following:

	2001	2000	1999
Computed "expected" tax expense (benefit)	**$1,027**	$(516)	$ 785
Nondeductible amortization	**222**	212	131
State and local income taxes, net of Federal income tax benefit	**199**	8	181
Tax-exempt investment earnings	**(30)**	(30)	(112)
Change in the valuation allowance for net deferred tax assets	**—**	—	(1,443)
Nondeductible meals and entertainment and other	**(2)**	76	40
	$1,416	$(250)	$ (418)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2001	2000
Deferred tax assets:		
Accrued expenses	**$ 602**	$ 601
Allowance for doubtful accounts	**352**	409
Impairment of notes receivable	**245**	352
Deferred revenue	**1,243**	501
Depreciation expense and impairment of long-lived assets	**2,134**	898
Expenses not deductible until paid	**372**	789
Amortization of intangibles	**70**	—
Net operating loss and other carry-forwards	**2,326**	2,326
Other	**106**	181
Total gross deferred tax assets	**7,450**	6,057
Deferred tax liabilities:		
Amortization of intangibles	**—**	297
Unrealized gain on marketable securities and income on investment in limited partnership	**209**	402
Other	**720**	343
Total gross deferred tax liabilities	**929**	1,042
Net deferred tax asset	**6,521**	5,015
Less: Valuation allowance	**(2,726)**	(2,726)
	$ 3,795	$ 2,289

In fiscal year 1999, management of the Company determined that, more likely than not, a significant portion of its previously-reserved deferred tax assets would be realized and, accordingly, reduced the related valuation allowance. The reduction in the valuation allowance is included in the income tax provision (benefit) in the accompanying consolidated statement of operations for fiscal 1999. The determination that the net deferred tax asset of $3,795 at March 25, 2001 is realizable is based on anticipated future taxable income.

As of the date of the acquisition, Miami Subs had net operating loss carry-forwards of approximately $5.9 million which were available to reduce future taxable income through 2019 subject to limitations imposed under the Internal Revenue Code regarding changes in ownership which limits utilization of the carry-forwards on an annual basis. Miami Subs also has general business credit carry-forwards of approximately $274, which can be used to offset tax liabilities through 2010. Miami Subs' federal income tax returns for fiscal years 1991 through 1996, inclusive, have been examined by the Internal Revenue Service ("IRS"). The reports of the examining agent issued in connection with these examinations indicate that additional taxes and penalties totaling approximately $2.4 million are due for such years. The Company appealed substantially all of the proposed adjustments. In January 2001, the Miami Subs tax audit was tentatively settled with the IRS Appeals Office. If approved on review, the settlement will result in (a) an aggregate tax liability for the taxable years 1991 through 1996 of $102 and (b) the Company retaining net operating loss carry-forwards of approximately $3.2 million (subject to limitations imposed under the Internal Revenue Code). In addition to the tax, interest and penalties will be due; the total amount of tax, interest and penalties is expected to be less than $300. The Company has accrued $345 for this matter in the accompanying consolidated balance sheets. Due to the outcome of the IRS examination and the Section 382 limitations, the Company has recorded a valuation allowance for the remaining Miami Subs loss carry-forwards. In accordance with SFAS No. 109 "Accounting for Income Taxes" any future reduction in the acquired Miami Subs valuation allowance will reduce goodwill.

13. Stock Plans and Other Employee Benefit Plans

Stock Option Plans

On December 15, 1992, the Company adopted the 1992 Stock Option Plan (the "Plan") which provides for the issuance of incentive stock options ("ISO's") to officers and key employees and non-qualified stock options to directors, officers and key employees. Up to 525,000 shares of common stock have been reserved for issuance under the Plan. The terms of the options are generally ten years, except for ISO's granted to any employee, whom prior to the granting of the option, owns stock representing more than 10% of the voting rights, for which the option term will be five years. The exercise price for non-qualified stock options outstanding under the Plan can be no less than the fair market value, as defined, of the Company's common stock at the date of grant. For ISO's, the exercise price can generally be no less than the fair market value of the Company's common stock at the date of grant, with the exception of any employee who prior to the granting of the option, owns stock representing more than 10% of the voting rights, for which the exercise price can be no less than 110% of fair market value of the Company's common stock at the date of grant.

On May 24, 1994, the Company adopted the Outside Director Stock Option Plan (the "Directors' Plan") which provides for the issuance of non-qualified stock options to non-employee directors, as defined, of the Company. Under the Directors' Plan, 200,000 shares of common stock have been authorized and issued pursuant to the Directors' Plan. Options awarded to each non-employee director are fully vested, subject to forfeiture under certain conditions and shall be exercisable upon vesting. There were no options granted under the provisions of the Directors' Plan during the years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively.

In April 1998, the Company adopted the Nathan's Famous Inc. 1998 Stock Option Plan (the "New Plan"), which provides for the issuance of non-qualified stock options to directors, officers and key employees. Up to 500,000 shares of common stock have been reserved for issuance under the New Plan. In April 1998, the Company granted 120,000 ISO's under the 1992 Stock Option Plan and the Company also issued 30,000 stock options to its non-employee directors under the New Plan. In October 1999, the Company granted 465,000 stock options under the New Plan.

The Plan, the New Plan and the Directors' Plan expire on December 2, 2002, April 5, 2008 and December 31, 2004, respectively, unless terminated earlier by the Board of Directors under conditions specified in the Plan.

The Company issued 478,584 stock options to employees of Miami Subs Corporation to replace 957,168 of previously issued Miami Subs options pursuant to the merger agreement

and issued 47,006 new options. All options were fully vested upon consummation of the merger. Exercise prices range from a low of $3.1875 to a high of $22.2517 per share and expire at various times through September 30, 2009.

Warrants

In November 1996, the Company granted to a non-employee consultant a warrant to purchase 50,000 shares of its common stock at an exercise price of $3.94 per share, which represented the market price of the Company's common stock on the date of grant. Upon the date of grant, one-third of the shares vested immediately, one-third vested on the first anniversary thereof, and the remaining one-third vested on the second anniversary thereof. The warrant, which is fully vested, expires on November 24, 2001.

On July 17, 1997, the Company also granted an additional warrant to purchase 150,000 shares of its common stock at an exercise price of $3.25 per share, the actual market price of the Company's common stock on the date of grant, to its Chairman and Chief Executive Officer.

In connection with the merger with Miami Subs, the Company issued 579,040 warrants to purchase common stock to the former shareholders of Miami Subs. These warrants expire on September 30, 2004 and have an exercise price of $6.00 per share. The Company also issued 63,700 warrants to purchase common stock to the former warrant holders of Miami Subs. Exercise prices range between $16.55 per share and $49.63 per share expiring through March 2006.

A summary of the status of the Company's stock option plans and warrants, excluding warrants issued to former shareholders of Miami Subs, at March 25, 2001, March 26, 2000 and March 28, 1999 and changes during the years then ended is presented in the tables and narrative below:

	2001		2000		1999	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding—beginning of year	**1,614,924**	**$ 4.79**	707,667	$5.08	600,167	$5.03
Granted	**—**	**—**	512,006	3.34	150,000	4.83
Exercised	**—**	**—**	—	—	—	—
Replacement options—Miami Subs	**—**	**—**	478,584	6.04	—	—
Canceled	**(100,715)**	**10.60**	(83,333)	5.50	(42,500)	5.08
Options outstanding—end of year	**1,514,209**	**3.86**	1,614,924	4.79	707,667	5.08
Options exercisable—end of year	**1,220,876**		1,086,424		528,167	
Weighted average fair value of options granted		**$ —**		$2.10		$1.77
Warrants outstanding—beginning of year	**401,200**	**5.66**	350,000	$3.88	350,000	$3.88
Granted	**—**	**—**	—	—	—	—
Replacement warrants—Miami Subs	**—**	**—**	63,700	24.09	—	—
Expired	**(32,450)**	**18.61**	(12,500)	49.63	—	—
Warrants outstanding—end of year	**368,750**	**4.53**	401,200	5.66	350,000	3.88
Warrants exercisable—end of year	**368,750**		401,200		237,500	
Weighted average fair value of warrants granted		**$ —**		$ —		$1.68

At March 25, 2001, 110,666 common shares were reserved for future stock option grant.

The following table summarizes information about stock options and warrants (excluding warrants issued to the Miami Subs shareholders as part of the merger consideration) at March 25, 2001:

	Options and Warrants Outstanding			Options and Warrants Exercisable	
Range of Exercise Prices	Number Outstanding at 3/25/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 3/25/01	Weighted Average Exercise Price
$3.19 to $ 4.00	1,202,558	5.5	$ 3.41	909,225	$ 3.43
4.01 to 7.00	580,651	3.5	5.41	580,651	5.41
7.01 to 22.25	99,750	2.8	12.61	99,750	12.61
$3.19 to $22.25	1,882,959	4.7	$ 5.04	1,589,626	$ 4.73

The fair value of each option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2000	1999
Expected life (years)	6.3	6.5
Interest rate	6.22%	5.58%
Volatility	59.3%	32.77%
Dividend yield	0%	0%

There were no options or warrants granted during fiscal 2001.

The Company has adopted the pro forma disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized in the accompanying financial statements for the stock option plans. Had compensation cost for the Company's stock option plans been determined under SFAS No. 123, the Company's net income and earnings per share would approximate the pro forma amounts below:

	2001	2000	1999
(in thousands, except per share amounts)			
Net income (loss):			
As reported	**$1,606**	$(1,270)	$2,728
Pro forma	**1,248**	(1,907)	2,247
Net income (loss) per share:			
Basic			
As reported	**$ .23**	$ (.22)	$ .58
Pro forma	**.18**	(.32)	.48
Diluted			
As reported	**$ .23**	$ (.22)	$ .57
Pro forma	**.18**	(.32)	.47

Because the SFAS No. 123 method of accounting is not applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Common Stock Purchase Rights

On June 20, 1995, the Board of Directors declared a dividend distribution of one common stock purchase right (the "Rights") for each outstanding share of Common Stock of the Company. The distribution was paid on June 20, 1995 to the shareholders of record on June 20, 1995. The terms of the Rights were amended on April 6, 1998 and December 8, 1999. Each Right, as amended, entitles the registered holder thereof to purchase from the Company one share of the Common Stock at a price of $4.00 per share (the "Purchase Price"), subject to adjustment for anti-dilution. New Common Stock certificates issued after June 20, 1995 upon transfer or new issuance of the Common Stock will contain a notation incorporating the Rights Agreement by reference.

The Rights are not exercisable until the Distribution Date. The Distribution Date is the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Common Stock, as amended, or (ii) ten business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement, or announcement of an intention to make a tender offer or exchange offer by a person (other than the Company, any wholly-owned subsidiary of the Company or certain employee benefit plans) which, if consummated, would result in such person becoming an Acquiring Person. The Rights will expire on June 19, 2005, unless earlier redeemed by the Company.

At any time prior to the time at which a person or group or affiliated or associated persons has acquired beneficial ownership of 15% or more of the outstanding shares of the Common Stock of the Company, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $.001 per Right. In addition, the Rights Agreement, as amended, permits the Board of Directors, following the acquisition by a person or group of beneficial ownership of 15% or more of the Common Stock (but before an acquisition of 50% or more of Common Stock), to exchange the Rights (other than Rights owned by such 15% person or group), in whole or in part, for Common Stock, at an exchange ratio of one share of Common Stock per Right.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. The Company has reserved 9,058,827 shares of Common Stock for issuance upon exercise of the Rights.

Restricted Stock Grants

In December 1992, the Company awarded an aggregate of 50,016 shares of common stock to two executive officers. Pursuant to the terms of the agreement, the shares were subject to certain restrictions. Compensation expense, based upon the fair market value of the stock on the date of grant, was determined by the Company to be $7 per share. Aggregate compensation expense of $280 has been recognized ratably over the six year period in which the restrictions lapse and has been included as deferred compensation as a component of stockholders' equity in the accompanying consolidated statement of stockholders' equity. Compensation expense was approximately $0, $0, and $34 for the fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively. The restrictions lapsed for all shares in December 1998.

Employment Agreements

The Company and its Chairman and Chief Executive Officer entered into a new employment agreement effective as of January 1, 2000. The new employment agreement expires December 31, 2004. Pursuant to the agreement, the officer receives a base salary of $1.00 and an annual bonus equal to 5% of the Company's consolidated pre-tax earnings for each fiscal year, with a minimum bonus of $250. The new employment agreement further provides for a three-year consulting period after termination of employment during which the officer will receive consulting payments in an annual amount equal to two-thirds of the average of the annual bonuses awarded to him during the three fiscal years preceding the fiscal year of termination of his employment. The employment agreement also provides for the continuation of certain benefits following death or disability. In connection with the agreement, the Company issued to the officer 25,000 shares of common stock with a fair market value at the date of grant of approximately $78.

In the event that the officer's employment is terminated without cause, he is entitled to receive his salary and incentive payment, if any, for the remainder of the contract term. The employment agreement further provides that in the event there is a change in control of the Company, as defined therein, the officer has the option, exercisable within one year after such an event, to terminate his employment agreement. Upon such termination, he has the right to receive a lump sum payment equal to the greater of (i) his salary and annual bonuses for the remainder of the employment term (including a prorated bonus for any partial fiscal year), which bonus shall be equal to the average of the annual bonuses awarded to him during the three fiscal years preceding the fiscal year of termination; or (ii) 2.99 times his salary and annual bonus for the fiscal year immediately preceding the fiscal year termination, as well as a lump sum cash payment equal to the difference between the exercise price of any exercisable options having an exercise price of less than the current market price of the Company's common stock and such then current market price. In addition, the Company will provide the officer with a tax gross-up payment to cover any excise tax due.

The Company and its President and Chief Operating Officer entered into an employment agreement on December 28, 1992 for a period commencing on January 1, 1993 and ending on December 31, 1996. The employment agreement has been extended annually through December 31, 2000, based on the original terms, and no non-renewal notice has been given as of June 14, 2001. The agreement provides for annual compensation of $275 plus certain other benefits. In November 1993, the Company amended this agreement to include a provision under which the officer has the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

The Company and the President of Miami Subs, pursuant to the merger agreement, entered into an employment agreement on September 30, 1999 for a period commencing on September 30, 1999 and ending on September 30, 2002. The agreement provides for annual compensation of $200 plus certain other benefits and automatically renews annually unless 180 days prior written notice is given to the employee. The agreement includes a provision under which the officer has the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

The Company and its Vice President—Finance and Chief Financial Officer entered into an employment agreement on January 31, 2000 that ends on January 31, 2002. The agreement provides for annual compensation of $155 plus certain other benefits. This agreement includes a provision under which the officer has the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

The Company and one executive of Miami Subs entered into an employment agreement effective as of July 1, 2001 for a period commencing on the date of the agreement and ending on July 1, 2003. The Company and another executive of Miami Subs entered into an employment agreement effective August 1, 2001 for a period commencing on the date of the agreement and ending on September 30, 2003 and for compensation at $90 per year. Each agreement also provides for certain other benefits. Each agreement additionally includes a provision under which the executive has the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

Each employment agreement terminates upon death or voluntary termination by the respective employee or may be terminated by the Company upon 30 days prior written notice by the Company in the event of disability or "cause," as defined in each agreement.

401(k) Plan

The Company has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all non-union employees over age 21 who have been employed by the Company for at least one year. Employees may contribute to the plan, on a tax-deferred basis, up to 15% of their total annual salary. Company contributions are discretionary. Beginning with the plan year ending February 28, 1994, the Company elected to match contributions at a rate of $.25 per dollar contributed by the employee on up to a maximum of 3% of the employee's total annual salary. Employer contributions for the fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999 were $25, $21 and $13, respectively.

Other Benefits

The Company provides, on a contributory basis, medical benefits to active employees. The Company does not provide medical benefits to retirees.

14. Commitments and Contingencies

Commitments

The Company's operations are principally conducted in leased premises. The leases generally have initial terms ranging from 5 to 20 years and usually provide for renewal options ranging from 5 to 20 years. Most of the leases contain escalation clauses and common area maintenance charges (including taxes and insurance). Certain of the leases require additional (contingent) rental payments if sales volumes at the related restaurants exceed specified limits. As of March 25, 2001, the Company has non-cancelable operating lease commitments, net of certain sublease rental income, as follows:

	Lease Commitments	Sublease Income	Net lease Commitments
2002	5,354	2,637	2,717
2003	4,611	2,388	2,223
2004	4,130	2,019	2,111
2005	4,013	1,854	2,159
2006	3,790	1,749	2,041
Thereafter	16,887	8,866	8,021

Aggregate rental expense, net of sublease income, under all current leases amounted to $3,549, $2,848 and $2,093 for the three fiscal years ended March 25, 2001.

The Company also owns or leases sites, which it leases or subleases to franchisees. The Company remains liable for all lease costs when properties are subleased to franchisees.

The Company also subleases non-Miami Subs locations to third parties. Such sub-leases provide for minimum annual rental payments by the Company aggregating approximately $2.1 million and expire on various dates through 2010 exclusive of renewal options.

Contingent rental payments on building leases are typically made based on the percentage of gross sales on the individual restaurants that exceed predetermined levels. The percentage of gross sales to be paid and related gross sales level vary by unit. Contingent rental expense was approximately $123, $123 and $113 for the fiscal years ended March 25, 2001, March 26, 2000 and March 28, 1999, respectively.

The Company also guarantees certain equipment financing for franchisees with a third party lender. The Company's maximum obligation for loans funded by the lender as of March 25, 2001, was approximately $1.3 million.

Contingencies

On February 28, 1995, an action entitled Textron Financial Corporation v. 1045 Rush Street Associates, Stephen Anfang, and Nathan's Famous, Inc. was instituted in the Circuit Court of Cook County, Illinois County Department, Chancery Division. The complaint alleged that the Company conspired to perpetrate a fraud upon the plaintiff and alleges that the Company breached its lease with 1045 Rush Street Associates and the estoppel agreement delivered to the plaintiff in connection therewith by subleasing these premises and thereafter assigning the lease with respect to the premises to a third party franchisee, and further by failing to pay rent under this lease on and after July 1990. This complaint sought damages in the amount of at least $1,500. The Company filed its answer to this complaint denying the material allegations of the complaint and asserting several affirmative defenses to liability including, but not limited to, the absence initially or subsequent failure of consideration for the estoppel agreement, equitable estoppel, release, failure to mitigate and other equitable and legal defenses. The plaintiff added as additional parties defendant, the attorney who represented the landlord in the financing transaction in connection with which the Estoppel Agreement was required. The Company and some of the named defendants entered into a Settlement with Textron whereby all of the plaintiff's claims against the Company and the other defendants were resolved under a Settlement Agreement and Mutual Release that provide for payments to be made jointly by all of the defendants on or before December 30, 1998 and January 15, 1999, which payments were made (Note 11).

On or about December 1996, Nathan's Famous Systems, Inc. ("Systems") instituted an action in the Supreme Court of New York, Nassau County, against Phylli Foods, Inc. a franchisee, and Calvin Danzig as a guarantor of Phylli Foods' payment and performance obligations, to recover royalty fees and advertising contributions due to Systems in the aggregate amount of $36 under a franchise agreement between Systems and Phylli Foods dated June 1, 1994. In their answer, the defendants essentially denied the material allegations of the complaint and interposed counterclaims against Systems in which they alleged essentially that Systems fraudulently induced the defendants to purchase the franchise from Systems or did so by means of negligent misrepresentation. Defendants also alleged that by reason of Systems' allegedly fraudulent and deceitful conduct, Systems violated the General Business Law of New York. As a consequence of the foregoing, the defendants sought damages in excess of five million dollars, as well as statutory relief under the General Business Law. A subsequent motion for summary judgment against Phylli Foods was successful and the action was settled by a payment from the defendants to Systems of $22.5.

The Company was named as one of three defendants in an action commenced in June 1997, in the Supreme Court of New York, Queens County. According to the complaint, the plaintiff, a dentist, is seeking injunctive relief and damages in an amount exceeding $5,000 against the landlord, one of the Company's franchisees and the Company claiming that the operation of a restaurant in a building in Long Island City created noxious and offensive fumes and odors that allegedly were injurious to the health of the plaintiff and his employees and patients, and interfered with, and irreparably damaged his practice. Plaintiff also claims that the landlord fraudulently induced him to enter a lease extension by representing that the first floor of the building would be occupied by a non-food establishment. As a result of a motion for summary judgment by the Company and Nathan's Famous Systems, Inc. ("Systems") which, as the actual franchisor was added to the action as a defendant, the Company was dismissed from the action. Neither the Company or Systems believes that there is any merit to the plaintiff's claims against Systems inasmuch as Systems never was a party to the lease, and the restaurant, which closed in or about August 1995, was operated by a franchisee exclusively. By stipulation, the plaintiff has recently agreed to limit his damages only to the costs associated with relocating his practice which are less than $500. The Company is defending the action vigorously.

On January 5, 1999, Miami Subs was served with a class action lawsuit entitled Robert J. Feeney, on behalf of himself and all other similarly situated vs. Miami Subs Corporation, et al., in Broward County Circuit Court, which was filed against Miami Subs, its directors and Nathan's in a Florida state court by a shareholder of Miami Subs. Since that time, the Company and its designees to the Miami Subs board have also been served. The suit alleged that the proposed merger between Miami Subs and the Company, as contemplated by the companies' non-binding letter of intent, is unfair to Miami Subs' shareholders and constitutes a breach by the defendants of their fiduciary duties to the shareholders of Miami Subs. The plaintiff seeks among other things: (i) class action status; (ii) preliminary and permanent injunctive relief against consummation of the proposed merger; and (iii) unspecified damages to be awarded to the shareholders of Miami Subs. On April 7, 2000, the plaintiff filed his dismissal without prejudice of the action, effectively ending the case against all the defendants.

The Company is involved in various other litigation in the normal course of business, none of which, in the opinion of management, will have a significant adverse impact on its financial position or results of operations.

15. Related Party Transactions

As of March 25, 2001, Miami Subs leased five restaurant properties from Kavala, Inc., a private company owned by Gus Boulis, a former shareholder of Miami Subs. Future minimum rental commitments due to Kavala at March 25, 2001 under these existing leases was approximately $1.1 million. In 1997, Miami Subs leased a then vacant, non-Miami Subs property to a company owned by Boulis. In connection with the acquisition of Miami Subs in November 1998, Nathan's purchased all of the shares of Miami Subs Common Stock owned by Boulis for $4,200 and he resigned all positions therein.

Mr. Donald L. Perlyn has been an officer of Miami Subs since 1990, a Director since 1997 and President and Chief Operating Officer since July 1998. Mr. Perlyn has been a director of Nathan's since October 1999. Mr. Perlyn serves as a member of the Board of Directors of Arthur Treacher's Inc. Miami Subs has been granted certain exclusive co-branding rights by Arthur Treacher's, Inc. and Mr. Perlyn has been granted options to acquire approximately 175,000 shares of Arthur Treachers' common stock.

Nathan's purchases its insurance from Harbor Group, Ltd., a company which is 50% owned by Howard Lorber, Nathan's Chairman of the Board and Chief Executive Officer. During fiscal year 2001, Nathan's paid Harbor Group $548.

16. Significant Fourth Quarter Adjustments

During the fourth quarter of fiscal 2000, the Company's management continued to monitor and evaluate the collectibility and potential impairment of its assets, in particular, notes receivable and certain fixed assets. In connection therewith, additional allowances for doubtful accounts of $399, impairment charges on certain notes receivable of $273 and impairment charges on fixed assets of $465 were recorded in the fourth quarter. Additionally, Nathan's recorded a $191 lease rental reserve resulting from the default of subleases for space which is not expected to be utilized by Nathan's and $236 in connection with the satisfaction of certain financial guarantees. It is management's opinion that these adjustments are properly recorded in the fourth quarter based upon the facts and circumstances that became available in that period.

17. Quarterly Financial Information (Unaudited)

(in thousands, except share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2001				
Revenues	**$12,899**	**$12,666**	**$11,418**	**$10,191**
Gross profit[a]	**3,423**	**3,457**	**2,821**	**2,568**
Net income (loss)	**745**	**933**	**145**	**(217)**
Per share information: Net income (loss) per share:				
Basic[b]	**$ .11**	**$ .13**	**$ .02**	**$ (.03)**
Diluted[b]	**$ .11**	**$ .13**	**$ .02**	**$ (.03)**
Shares used in computation of net income (loss) per share:				
Basic[b]	**7,040,000**	**7,065,000**	**7,065,000**	**7,065,000**
Diluted[b]	**7,044,000**	**7,155,000**	**7,065,000**	**7,130,000**
Fiscal Year 2000				
Revenues	$ 7,914	$ 8,068	$ 11,899	$ 10,010
Gross profit[a]	2,487	2,540	3,110	2,528
Net income	469	616	(227)	(2,128)
Per share information:				
Net income (loss) per share:				
Basic	$ .10	$ .13	$ (.03)	$ (.30)
Diluted	$ .10	$ .13	$ (.03)	$ (.30)
Shares used in computation of net income (loss) per share:				
Basic	4,722,000	4,722,000	7,040,000	7,040,000
Diluted	4,744,000	4,722,000	7,040,000	7,040,000

(a) Gross profit represents the difference between sales and the cost sales.

(b) The sum of the quarters does not equal the full year per share amounts included in the accompanying consolidated statements of operations due to the effect of the weighted average number of shares outstanding during the fiscal years as compared to the quarters.

Report of Independent Public Accountants

To Nathan's Famous, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Nathan's Famous, Inc., (a Delaware Corporation) and subsidiaries as of March 25, 2001 and March 26, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years ended March 25, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nathan's Famous, Inc. and subsidiaries as of March 25, 2001 and March 26, 2000, and the results of their operations and their cash flows for each of the three fiscal years ended March 25, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Melville, New York
June 14, 2001

Nathan's Famous, Inc. & Subsidiaries

Market for Registrant's Common Stock

and Related Stockholder Matters

Common Stock Prices

Our common stock began trading on the over-the-counter market on February 26, 1993 and is quoted on the Nasdaq National Market® System ("Nasdaq") under the symbol "NATH." The following table sets forth the high and low closing share prices per share for the periods indicated:

	High	Low
Fiscal year ended March 26, 2000		
First quarter	$4.19	$3.50
Second quarter	3.69	3.13
Third quarter	3.66	3.16
Fourth quarter	4.75	3.06
Fiscal year ended March 25, 2001		
First quarter	**$ 4.00**	**$ 2.75**
Second quarter	**3.94**	**2.88**
Third quarter	**3.81**	**2.56**
Fourth quarter	**3.88**	**2.88**

At June 6, 2001 the closing price per share for our common stock, as reported by Nasdaq was $3.30.

Dividend Policy

We have not declared or paid a cash dividend on our common stock since our initial public offering. It is our Board of Directors' policy to retain all available funds to finance the development and growth of our business. The payment of cash dividends in the future will be dependent upon our earnings and financial requirements.

Shareholders

As of June 6, 2001, we had 840 shareholders of record, excluding shareholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers.

Annual Shareholders' Meeting

The Annual Meeting of Shareholders of the Company will be held at 10:00 a.m., EST on Friday, September 14, 2001 at the deSeversky Conference Center, Northern Boulevard, Old Westbury, New York.

Corporate Directory

LIST OF DIRECTORS

Howard M. Lorber
Chairman & Chief Executive Officer, Nathan's Famous, Inc.

Wayne Norbitz
President & Chief Operating Officer, Nathan's Famous, Inc.

Donald L. Perlyn
Executive Vice President, Nathan's Famous, Inc.

Robert Eide
Chairman, AEGIS Capital Corp.

Barry Leistner
President & Chief Executive Officer, Koenig Iron Works, Inc.

Brian Genson
President, Pole Position Investments

A.F. Petrocelli
Chairman & President, United Capital Corp.

LIST OF OFFICERS

Howard M. Lorber
Chairman & Chief Executive Officer

Wayne Norbitz
President & Chief Operating Officer

Donald L. Perlyn
Executive Vice President

Carl Paley
Senior Vice President—Franchise & Real Estate Development

Ronald G. DeVos
Vice President—Finance, Chief Financial Officer & Secretary

Donald Schedler
Vice President—Architecture & Construction

INDEPENDENT AUDITORS

Arthur Andersen, LLP
115 Broad Hollow Road, Melville, New York 11747

CORPORATE COUNSEL

Blau, Kramer, Wactlar & Lieberman, P.C.
100 Jericho Quadrangle, Jericho, New York 11753

TRANSFER AGENT

American Stock Transfer & Trust Company
40 Wall Street, New York, New York 10005

FORM 10-K

The Company's annual report on Form 10-K as
filed with the Securities and Exchange Commission,
is available upon written request:
Secretary, Nathan's Famous, Inc.,
1400 Old Country Road,
Westbury, New York 11590

QUARTERLY SHAREHOLDER LETTER

Will be available on our website. Copies will be provided upon request.

CORPORATE HEADQUARTERS

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516-338-8500 Telephone
516-338-7220 Facsimile

COMPANY WEBSITE

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Life is short. Make fun of it.