2002 Annual Report

A HISTORY OF EXCELLENCE,

A FUTURE OF OPPORTUNITY.

A Treasured Tradition for Over 85 Years.

Financial Highlights

	Fiscal Year		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Systemwide Data:			
Sales**	**$265,478**	$287,097	$221,014
Number of outlets, at year end***	**386**	411	447
Selected Consolidated Financial Data:			
Revenues	**$ 44,399**	$ 47,174	$ 37,891
Income (loss) before taxes*	**$ 2,211**	$ 3,022	$ (1,520)
Net earnings (loss)*	**$ 1,249**	$ 1,606	$ (1,270)
Net earnings (loss) per share*			
Basic	**$ 0.18**	$ 0.23	$ (0.22)
Diluted	**$ 0.18**	$ 0.23	$ (0.22)
Weighted-average number of common shares outstanding			
Basic	**7,048**	7,059	5,881
Diluted	**7,083**	7,098	5,881
Total assets	**$ 48,745**	$ 51,826	$ 48,583
Stockholders' equity	**$ 36,145**	$ 35,031	$ 33,347

**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.*

Corporate 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 may be 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 also provide opportunities to 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.

STOCKHOLDERS' LETTER

Fellow Shareholders:

Fiscal 2002 has been a year accentuated by both significant advances and challenges at Nathan's.

Points-of-Distribution Strategy

We have continued to advance our successful, brand-marketing approach and points-of-distribution strategy. In particular, the exposure of the Nathan's Famous brand and the sale of our signature hot dog products have increased substantially.

Our Branded Product Program, featuring the sale of Nathan's Famous hot dogs to the foodservice industry, realized sales gains of more than 25%. Today, there are approximately 1,500 locations where the Nathan's Famous trademark is prominently displayed and our hot dogs are featured for sale. The Nathan's Famous Branded Product Program continues to provide an exceptionally attractive opportunity to foodservice operators in a myriad of diverse venues to capitalize on Nathan's Famous highly-valued brand equity and superior products.

We continue to benefit from our licensing arrangement with SMG for the nationwide sale of our packaged hot dogs in supermarkets, grocery stores, and other outlets. In fiscal 2002, as in each of the past five years, the sales of Nathan's Famous products generated by SMG and the corresponding royalty that we derive has increased compared to levels actualized in the prior year. Nathan's Famous products are now available for sale in more than 6,000 supermarkets and club stores throughout the United States.

Restaurant Operations

The foundation of our business remains our restaurant operations. Today, there are 364 franchised or licensed restaurants and 22 company-owned restaurants systemwide, which includes Nathan's Famous, Miami Subs and Kenny Rogers Roasters outlets. We also have an agreement permitting us to use the Arthur Treacher's brand and their products in co-branded environments. Nathan's Famous restaurants are primarily located in New York and in non-traditional, captive-market settings. Miami Subs restaurants are predominantly situated in Florida and Kenny Rogers Roasters restaurants are mainly located in Asia.

Nathan's Famous restaurants operate in traditional locations; however, the majority of our units are located in captive-market venues including: malls, airports, highway travel locations, colleges and universities, and within casino hotels and other entertainment environments. During fiscal 2002, the same-store sales of Nathan's Famous company-owned and franchised units increased compared to the prior year.

FOCUSED STRATEGIES

In the initial weeks following the events of September 11, 2001, there was a decline in revenues in a significant number of company and franchised restaurants, operating primarily in Las Vegas, South Florida, and at airports throughout the United States. Sales have since rebounded in Las Vegas and at airports, but have remained negatively impacted in the South Florida market.

Co-Branding

During this past fiscal year, we have made significant progress introducing new brands and products into existing restaurants. Arthur Treacher's has been added to the menus of 133 Nathan's Famous, Miami Subs and Kenny Rogers Roasters restaurants. Nathan's has been added to the menus of 88 Miami Subs and Kenny Rogers Roasters restaurants and Kenny Rogers Roasters has been introduced into 79 Nathan's Famous and Miami Subs restaurants.

Currently, 102 Miami Subs restaurants have introduced a co-branded menu consisting of Nathan's Famous, Kenny Rogers Roasters, or Arthur Treacher's signature products. We have created a new image for Miami Subs based upon this co-branding strategy called "Miami Subs Plus!" which has been marketed in southern Florida beginning in July 2001.

On a corporate level, Nathan's Board of Directors authorized management to repurchase up to one million shares of the Company's common stock, pursuant to a repurchase program commencing on September 14, 2001. As of June 7, 2002, the Company had purchased 792,691 shares of common stock.

In Conclusion

Today, our Company is engaged in business in 39 states, the District of Columbia, and 14 foreign countries, featuring the Nathan's Famous, Miami Subs and Kenny Rogers Roasters brands. We intend to enhance our existing operations, as well as grow both nationally and internationally, by expanding our restaurant presence and continuing to capitalize on our points-of-distribution strategies.

As we continue to expand and pursue profitable, new opportunities to market our products, we will retain our steadfast commitment to quality and endeavor to serve our shareholders responsibly. We remain extremely appreciative of your continued support.

Sincerely,

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 31, 2002	March 25, 2001	March 26, 2000	March 28, 1999	March 29, 1998
Statement of Operations Data:					
Revenues:					
Sales	**$ 32,349**	$ 34,799	$ 29,642	$23,964	$22,971
Franchise fees and royalties	**7,944**	8,814	5,906	3,230	3,062
License royalties, investment and other income	**4,106**	3,561	2,343	1,953	2,393
Total revenues	**44,399**	47,174	37,891	29,147	28,426
Costs and Expenses:					
Cost of sales	**21,643**	22,530	18,977	14,932	14,017
Restaurant operating expenses	**7,788**	8,964	8,208	5,780	6,411
Depreciation and amortization	**1,661**	1,791	1,358	1,065	1,035
Amortization of intangible assets	**888**	839	716	384	384
General and administrative expenses	**9,292**	8,978	8,222	4,722	4,755
Interest expense	**256**	310	198	1	6
Impairment of long-lived assets	**685**	127	465	302	—
Impairment of notes receivable	**185**	151	840	—	—
Other (income) expense	**(210)**	462	427	(349)	—
Total costs and expenses	**42,188**	44,152	39,411	26,837	26,608
Income (loss) before provision (benefit) for income taxes	**2,211**	3,022	(1,520)	2,310	1,818
Provision (benefit) for income taxes	**962**	1,416	(250)	(418)	290
Net income (loss)	**$ 1,249**	$ 1,606	$ (1,270)	$ 2,728	$ 1,528
Per Share Data:					
Net income (loss)					
Basic	**$ 0.18**	$ 0.23	$ (0.22)	$ 0.58	$ 0.32
Diluted	**$ 0.18**	$ 0.23	$ (0.22)	$ 0.57	$ 0.32
Dividends	**—**	—	—	—	—
Weighted average shares used in computing net income (loss) per share					
Basic	**7,048**	7,059	5,881	4,722	4,722
Diluted(1)	**7,083**	7,098	5,881	4,753	4,749
Balance Sheet Data at End of Fiscal Year:					
Working capital (deficit)	**$ 9,565**	$ 5,210	$ (322)	$ 3,708	$ 6,105
Total assets	**48,745**	51,826	48,583	31,250	29,539
Long-term debt, net of current maturities	**1,220**	1,789	3,131	0	9
Stockholders' equity	**$ 36,145**	$ 35,031	$ 33,347	$26,348	$23,586
Selected Restaurant Operating Data:					
Systemwide Restaurant Sales:					
Company-owned	**$ 27,484**	$ 30,946	$ 27,478	$21,981	$22,332
Franchised	**185,389**	208,889	152,627	64,178	58,802
Total	**$212,873**	$239,835	$180,105	$86,159	$81,134
Number of Units Open at End of Fiscal Year:					
Company-owned	**22**	25	32	25	27
Franchised	**364**	386	415	163	156
Total	**386**	411	447	188	183

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.

Introduction

As used in this Report, the terms "we," "us," "our" and "Nathan's" mean Nathan's Famous, Inc. and its subsidiaries (unless the context indicates a different meaning).

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, Miami Subs and Kenny Rogers 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 Nathan's 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 Nathan's trademark with respect to the sale of hot dogs and certain other proprietary food items and paper goods.

In addition to plans for expansion through franchising and our Branded Product Program, Nathan's is continuing to capitalize on the co-branding opportunities within its existing restaurant system. To date, the Arthur Treacher's brand has been introduced within 133 Nathan's, Kenny Rogers Roasters and Miami Subs restaurants, the Nathan's brand has been added to the menu of 88 Miami Subs and Kenny Rogers restaurants, while the Kenny Rogers Roasters brand has been introduced into 79 Miami Subs and Nathan's restaurants. We have begun testing the Miami Subs brand in three company-owned Nathan's restaurants and one Kenny Rogers franchised restaurant.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. Through March 31, 2002, we have terminated leases on 15 of those properties. We continue to market two of those properties for sale and terminated 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.

In the wake of the events of September 11, 2001, we have experienced lower sales at company-owned restaurants and lower royalties from franchised restaurants that operate in markets which are significant tourist destinations such as Las Vegas and South Florida. During the initial months subsequent to September 11, we realized declines at our franchised restaurants operating at airports throughout the United States as a result of the overall decline in airline traffic.

At March 31, 2002, our combined system consisted of 364 franchised or licensed units, 22 company-owned units and approximately 1,500 Nathan's Branded Product points of sale that feature Nathan's world famous all-beef hot dogs, located in 39 states, the District of Columbia and 14 foreign countries. At March 31, 2002, our company-owned restaurant system included 16 Nathan's units, four Miami Subs units and two Kenny Rogers Roasters units, as compared to 17 Nathan's units, six Miami Subs units and two Kenny Rogers Roasters units at March 25, 2001.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the notes to our consolidated financial statements contain information that is pertinent to management's discussion and analysis. 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 disclosures of contingent assets and liabilities. We believe the following critical accounting policies involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts.

Statement of Financial Accounting Standards, or SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," requires management judgments regarding the future operating and disposition plans for underperforming assets, and estimates of expected realizable values for assets to be sold. The application of SFAS No. 121 has affected the amounts and timing of charges to operating results in recent years. We evaluate possible impairment of each restaurant individually, and record an impairment charge whenever we determine that impairment factors exist. We consider a history of restaurant operating losses to be the primary indicator of potential impairment of a restaurant's carrying value. We have identified certain restaurants that have been impaired and recorded impairment charges of approximately $685,000 (relating to two restaurants), $127,000 (relating to one restaurant) and $465,000 (relating to three restaurants) in the consolidated statements of operations for fiscal years 2002, 2001 and 2000, respectively.

Statement of Financial Accounting Standards, or SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," requires management judgments regarding the future collectibility of notes receivable and the underlying fair market value of collateral. We consider the following factors when evaluating a note for impairment: 1) indications that the borrower is experiencing business problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions; 2) whether the loan is secured by collateral that is not readily marketable; or 3) whether the collateral

is susceptible to deterioration in realizable value. When determining possible impairment, we also assess our future intention to extend certain leases beyond the minimum lease term and the note holder's ability to meet its obligation over that extended term. We have identified certain notes receivable that have been impaired and recorded impairment charges of approximately $185,000 (relating to two loans), $151,000 (relating to one loan) and $840,000 (relating to six loans) in the consolidated statements of operations for fiscal years 2002, 2001 and 2000, respectively.

In the normal course of business, we extend credit to franchisees for the payment of ongoing royalties and to trade customers of our Branded Product Program. Notes and accounts receivable, net, as shown on our consolidated balance sheets were net of allowances for doubtful accounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the financial statements, assessment of collectibility based upon historical trends and an evaluation of the impact of current and projected economic conditions. In the event that the collectibility of a receivable is doubtful, the associated revenue is not recorded until the facts and circumstances change in accordance with Staff Accounting Bulletin SAB No. 101, "Revenue Recognition."

We are self-insured for portions of our general liability coverage. As part of our risk management strategy, our insurance programs include deductibles for each incident and in the aggregate for a policy year. As such, we accrue estimates of our ultimate self-insurance costs throughout the policy year. These estimates have been developed based upon our historical trends, however, the final cost of many of these claims may not be known for five years or longer. Accordingly, our annual self-insurance costs may be subject to adjustment from previous estimates as facts and circumstances change.

Statement of Financial Accounting Standards, or SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets with indefinite lives will no longer be amortized but will be reviewed annually (or more frequently if impairment indicators arise) for impairment, requiring significant management judgment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. With respect to its goodwill and intangible assets acquired prior to July 1, 2001, Nathan's is required to adopt SFAS No. 142 effective in its next fiscal year, commencing April 1, 2002. Nathan's will no longer amortize existing goodwill and certain intangibles having indefinite lives, thus reducing amortization expense by approximately $600,000 per year. We expect to complete our impairment analysis during the first quarter fiscal 2003 and expect to recognize an impairment charge of approximately $12 to $13 million upon adoption of SFAS No. 142.

Results of Operations

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 25, 2001

Revenues

Total sales decreased by 7.0% or $2,450,000 to $32,349,000 for the fifty-three weeks ended March 31, 2002 ("fiscal 2002 period") as compared to $34,799,000 for the fifty-two weeks ended March 25, 2001 ("fiscal 2001 period"). Sales from the Branded Product Program increased by 26.2% or $1,011,000 to $4,864,000 for the fiscal 2002 period as compared to sales of $3,853,000 in the fiscal 2001 period. Company-owned restaurant sales decreased 11.2% or $3,461,000 to $27,485,000 from $30,946,000 primarily due to operating nine fewer company-owned stores as compared to the prior fiscal period and lower sales at the two new restaurants that began operating during the fiscal 2001 period. These reductions were partially offset by sales during the fiscal 2002 period from a restaurant that was closed for renovation during the fiscal 2001 period and increased sales at the Coney Island restaurant during the summer season. Fiscal 2002 was a 53-week reporting period while fiscal 2001 was a 52-week reporting period. Approximately $390,000 in restaurant sales were generated during the additional week of operations. The unit reduction is the result of our franchising two company-owned restaurants, transferring one company-owned restaurant to a franchisee pursuant to a management agreement, closing four unprofitable company-owned units (including three Miami Subs restaurants pursuant to our divesture plan), selling one unit pursuant to an order of condemnation and closing one unit due to its lease expiration. The financial impact associated with these nine restaurants lowered restaurant sales by $3,749,000 and improved restaurant operating profits by $30,000 versus the fiscal 2001 period, excluding any one-time gains or royalties to be received from restaurants sold to franchisees. Comparable restaurant sales (consisting of 15 Nathan's and four Miami Subs restaurants that have been operating for 18 months or longer as of the beginning of the fiscal year) during the comparable 52-week period increased by 2.5% versus the fiscal 2001 period.

Franchise fees and royalties decreased by 9.9% or $870,000 to $7,944,000 in the fiscal 2002 period compared to $8,814,000 in the fiscal 2001 period. Franchise royalties decreased by $1,299,000 or 16.1% to $6,761,000 in the fiscal 2002 period as compared to $8,060,000 in the fiscal 2001 period. Domestic franchise restaurant sales decreased by 11.2% to $185,389,000 in the fiscal 2002 period as compared to $208,889,000 in the fiscal 2001 period. The majority of this decline is due to fewer franchised restaurants operating during the fiscal 2002 period as compared to the fiscal 2001 period. During the initial months subsequent to September 11, 2001, we have experienced lower royalties from franchised restaurants that operate in markets which are significant tourist destinations, such as Las Vegas and South Florida, and from franchised restaurants operating at airports throughout the United States. Further contributing to the decline is an increase in the amount of royalties deemed to be unrealizable. At March 31, 2002, 364 franchised

or licensed restaurants were operating as compared to 386 franchised or licensed restaurants at March 25, 2001. Franchise fee income derived from new openings and co-branding was $875,000 in the fiscal 2002 period as compared to $754,000 in the fiscal 2001 period. This increase was primarily attributable to the fees earned from the co-branding initiative within the existing restaurant system. During the fiscal 2002 period, 18 new franchised or licensed units opened and 47 units have been co-branded. During the fiscal 2002 period, we realized $308,000 in connection with forfeited development fees.

License royalties were $2,038,000 in the fiscal 2002 period as compared to $1,958,000 in the fiscal 2001 period. This increase is comprised of higher royalties earned from sales by SMG, Inc., Nathan's licensee for the sale of Nathan's frankfurters within supermarkets and club stores.

Investment and other income was $2,068,000 in the fiscal 2002 period versus $1,603,000 in the fiscal 2001 period. During the fiscal 2002 period, Nathan's recognized net gains of 1,226,000 in connection with the sale of two company-owned restaurants and a third non-restaurant property. During the fiscal 2002 period, Nathan's investment and interest income was approximately $342,000 higher than in the fiscal 2001 period due primarily to differences in performance of the financial markets between the two periods. In the fiscal 2001 period, Nathan's recognized income of approximately $479,000 in connection with the introduction of a consolidated food distribution agreement and earned a $500,000 transfer fee in connection with a change in ownership of Nathan's licensee, SMG, Inc.

Costs and Expenses

Cost of sales decreased by $887,000 to $21,643,000 in the fiscal 2002 period from $22,530,000 in the fiscal 2001 period. During the fiscal 2002 period, restaurant cost of sales were lower than the fiscal 2001 period by approximately $1,986,000. Restaurant cost of sales were reduced by approximately $2,423,000 as a result of operating fewer company-owned restaurants. Additionally, lower cost of sales at the two Kenny Rogers Roasters restaurants opened last year offset the higher costs at our comparable restaurants. Notwithstanding the lower costs and expenses of the two Kenny Rogers Roasters restaurants, these restaurants continued to underperform. Consequently, we have decided to sell the Kenny Rogers Roasters restaurant in Rockville Centre, New York. The cost of restaurant sales at our comparable units as a percentage of restaurant sales was 62.5% in the fiscal 2002 period as compared to 61.3% in the fiscal 2001 period due primarily to higher labor and related costs. Higher costs of approximately $1,100,000 were incurred in connection with the growth of our Branded Product Program and higher product costs incurred for much of the fiscal 2002 period. During the first twenty-six weeks of fiscal 2002, commodity prices of our primary meat products were at their highest levels in recent years causing the majority of the cost increase. In response, we raised retail prices on a selective basis in an attempt to partially offset these increases. Beginning in the third quarter fiscal 2002, these costs were lowered to their historical levels. However, should costs escalate again for an extended period, we may determine to further examine our pricing structure to attempt to reduce the impact on our margins.

Restaurant operating expenses decreased by $1,176,000 to $7,788,000 in the fiscal 2002 period from $8,964,000 in the fiscal 2001 period. Restaurant operating costs were lower in the fiscal 2002 period by approximately $1,357,000, as compared to the fiscal 2001 period as a result of operating fewer restaurants. Restaurant operating expenses of the two restaurants opened last year were $92,000 lower during the fiscal 2002 period due in part to the higher costs attributable to last year's openings. These reductions in restaurant operating expenses were partially offset by an increase of approximately $268,000 at the comparable restaurants which were primarily driven by higher marketing and insurance costs.

Depreciation and amortization decreased by $130,000 to $1,661,000 in the fiscal 2002 period from $1,791,000 in the fiscal 2001 period. Lower depreciation expense of operating fewer company-owned restaurants during the fiscal 2002 period versus the fiscal 2001 period was partially offset by additional depreciation expense attributable to last year's capital spending.

Amortization of intangibles increased by $49,000 to $888,000 in the fiscal 2002 period from $839,000 in the fiscal 2001 period. Amortization of intangibles increased as a result of last year's final purchase price allocation of the Miami Subs acquisition.

General and administrative expenses increased by $314,000 to $9,292,000 in the fiscal 2002 period as compared to $8,978,000 in the fiscal 2001 period. The increase in general and administrative expenses was due primarily to higher legal and professional expenses of approximately $544,000, including a litigation expense of $450,000, and higher bad debts of approximately $76,000 which were partly offset by lower personnel and incentive compensation expense of approximately $389,000.

Interest expense was $256,000 during the fiscal 2002 period as compared to $310,000 during the fiscal 2001 period. The reduction in interest expense relates primarily to the repayment of outstanding debt between the two periods.

Impairment charges on fixed assets of $685,000 during the fiscal 2002 period and $127,000 during the fiscal 2001 period reflect write-downs relating to two underperforming stores in the fiscal 2002 period and one underperforming store in the fiscal 2001 period.

Impairment charges on notes receivable of $185,000 during the fiscal 2002 period and $151,000 during the fiscal 2001 period relate to write-downs of two and one notes receivable, respectively.

Other income of $210,000 in the fiscal 2002 period represents the reversal of a previously recorded litigation provision for an award that was settled, upon appeal, in our favor. 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.

Income Tax Expense

In the fiscal 2002 period, the income tax provision was $962,000 or 43.5% of income before income taxes as compared to $1,416,000 or 46.9% of income before income taxes in the fiscal 2001 period.

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 fifty-two weeks ended March 26, 2000 included the operations of Miami Subs for approximately twenty-six weeks as compared to including fifty-two 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 divesture 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 Nathan's 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 Nathan's 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 to 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 underperforming store in the fiscal 2001 period and three underperforming 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.

Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2002 aggregated $1,834,000, decreasing by $2,491,000 during the fiscal 2002 period. At March 31, 2002, marketable securities and investment in limited partnership increased by $4,171,000 from March 25, 2001 to $8,819,000 and net working capital increased to $9,565,000 from $5,210,000 at March 25, 2001.

Cash used in operations of $3,081,000 in the fiscal 2002 period is primarily attributable to net income of $1,249,000, non-cash charges of $4,195,000, including depreciation and amortization of $2,549,000, impairment charges of $870,000, deferred taxes of $509,000 and provision for doubtful accounts of $267,000, in addition to a decrease in other assets of $104,000, which were more than offset by decreases in accounts payable and accrued expenses of $2,538,000, an increase in marketable securities and investment in limited partnership of $4,171,000, an increase in prepaid expenses and other current assets of $295,000, an increase in inventories of $69,000 and a decrease in deferred franchise fees of $324,000.

Cash provided by investing activities of $2,078,000 is comprised primarily of proceeds from the sale of two company-owned restaurants and one non-restaurant

property totaling $3,348,000. On May 1, 2001, pursuant to an order of condemnation, we sold a company-owned restaurant to the State of Florida for $1,475,000, net of estimated expenses of $25,000, and repaid the outstanding mortgage of approximately $793,000 plus accrued interest. We successfully appealed the value of the property that was condemned by the State of Florida and were awarded an additional $850,000 in November 2001. On June 22, 2001, we also sold our restaurant in the Paramus Park Mall to a franchisee for $400,000 in cash and concurrently entered into a sublease for the property. On January 17, 2002, we also sold a non-restaurant location for $575,000. Additionally, $2,082,000 was expended relating to capital improvements of the company-owned restaurants and other fixed asset additions and was partially offset by repayments on notes receivable of $812,000.

Cash used in financing activities of $1,488,000 represents repayments of notes payable and obligations under capital leases in the amount of $1,353,000. The majority of the repayments arose from the repayment of an outstanding mortgage of approximately $793,000 plus accrued interest in connection with the condemnation of a company-owned restaurant by the State of Florida, as described above.

On September 14, 2001, Nathan's was authorized to purchase up to one million shares of its common stock. Pursuant to our stock repurchase program, we repurchased 41,691 shares of common stock in open market transactions at a total cost of $135,000 as of March 31, 2002. On April 10, 2002, we repurchased 751,000 shares of common stock in a private transaction at a total cost of $2,741,500.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. Through March 31, 2002, we have terminated leases on 15 of those properties. We are continuing to market two of the remaining properties for sale and terminated the lease for the last unit upon the lease expiration in May 2002. As of March 31, 2002, we have accrued approximately $1,461,000 and made payments of approximately $1,273,000 for lease obligations 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 one 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.

We expect that we will make additional investments in certain existing restaurants in the future and that we will fund those investments from our operating cash flow. We do not expect to incur significant capital expenditures to develop new company-owned restaurants during our fiscal year ending March 30, 2003.

There are currently 34 properties that we either own or lease from third parties which we lease or sublease to franchisees and non-franchisees. We remain contingently liable for all costs associated with these properties. Additionally, we guaranteed financing on behalf of certain franchisees with two third-party lenders. Our maximum obligation for loans funded by the lenders as of March 31, 2002 was approximately $1.7 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. This year, various Federal and New York State legislators have proposed changes to the existing minimum wage requirements. The New York State Assembly has voted to increase the minimum wage to $6.75 an hour beginning January 1, 2003 with automatic annual increases, commencing January 2004, based upon increases in the state's average weekly pay. Before being enacted, this proposal must be approved by the New York State Senate and signed by the Governor. In addition, U.S. Senator Edward Kennedy has proposed increasing the Federal minimum wage to $6.65 an hour which would be fully phased in by January 1, 2004. If this proposal is passed this year, the first increase of $0.60 an hour would take effect 60 days later, followed by a $0.50 cent an hour increase on January 1, 2003 and another $0.50 an hour increase on January 1, 2004. U.S. Senate Majority Leader Tom Daschle has indicated that he wants to schedule a vote on this matter in the summer of 2002. We believe that these increases in the minimum wage could have a significant financial impact on our financial results. 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 July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. With respect to its goodwill and intangible assets acquired prior to July 1, 2001, Nathan's is required to adopt SFAS No. 142 effective in its next fiscal year, commencing April 1, 2002. Nathan's will no longer amortize existing goodwill and certain intangibles having indefinite lives, thus reducing amortization expense by approximately $600,000 per year. We expect to complete our impairment analysis during the first quarter fiscal 2003 and expect to recognize an impairment charge of approximately $12 to $13 million upon adoption of SFAS No. 142.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Nathan's is currently evaluating the effect of adoption on its financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The provisions of this statement are required to be adopted no later than fiscal years beginning after December 31, 2001, with early adoption encouraged. Nathan's is currently evaluating the impact of the adoption of SFAS 144, which Nathan's does not expect to be material.

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: the ongoing effects of the events of September 11, 2001; economic, weather, legislative and business conditions; the collectibility of receivables; the availability of suitable restaurant sites on reasonable rental terms; changes in consumer tastes; the ability to continue to attract franchisees; the ability to purchase our 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 31, 2002	March 25, 2001
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,834**	$ 4,325
Marketable securities and investment in limited partnership	**8,819**	4,648
Notes and accounts receivable, net	**2,808**	4,178
Inventories	**592**	523
Assets available for sale	**1,512**	1,510
Prepaid expenses and other current assets	**1,269**	974
Deferred income taxes	**1,747**	1,714
Total current assets	**18,581**	17,872
Notes receivable, net	**2,277**	1,729
Property and equipment, net	**8,925**	11,279
Assets available for sale	**—**	450
Intangible assets, net	**17,123**	18,011
Deferred income taxes	**1,539**	2,081
Other assets, net	**300**	404
	$48,745	$51,826
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable and capital lease obligations	**$ 559**	$ 1,343
Accounts payable	**1,619**	1,978
Accrued expenses and other current liabilities	**6,506**	8,685
Deferred franchise fees	**332**	656
Total current liabilities	**9,016**	12,662
Notes payable and capital lease obligations, less current maturities	**1,220**	1,789
Other liabilities	**2,364**	2,344
Total liabilities	**12,600**	16,795
Commitments and Contingencies (Note N)		
Stockholders' Equity		
Common stock, $.01 par value; 30,000,000 shares authorized; 7,065,202 and 7,065,202 shares issued; and 7,023,511 and 7,065,202 shares outstanding at March 31, 2002 and March 25, 2001, respectively	**71**	71
Additional paid-in capital	**40,746**	40,746
Accumulated deficit	**(4,537)**	(5,786)
	36,280	35,031
Treasury stock, 41,691 shares at cost	**(135)**	—
Total stockholders' equity	**36,145**	35,031
	$48,745	$51,826

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended	
	March 31, 2002	March 25, 2001	March 26, 2000
Revenues			
Sales	**$32,349**	$34,799	$29,642
Franchise fees and royalties	**7,944**	8,814	5,906
License royalties	**2,038**	1,958	1,906
Equity in losses of unconsolidated affiliate	**—**	—	(163)
Investment and other income	**2,068**	1,603	600
Total revenues	**44,399**	47,174	37,891
Costs and Expenses			
Cost of sales	**21,643**	22,530	18,977
Restaurant operating expenses	**7,788**	8,964	8,208
Depreciation and amortization	**1,661**	1,791	1,358
Amortization of intangible assets	**888**	839	716
General and administrative expenses	**9,292**	8,978	8,222
Interest expense	**256**	310	198
Impairment charge on long-lived assets	**685**	127	465
Impairment charge on notes receivable	**185**	151	840
Other (income) expense, net	**(210)**	462	427
Total costs and expenses	**42,188**	44,152	39,411
Income (loss) before provision (benefit) for income taxes	**2,211**	3,022	(1,520)
Provision (benefit) for income taxes	**962**	1,416	(250)
Net income (loss)	**$ 1,249**	$ 1,606	$ (1,270)
Per Share Information			
Net income (loss) per share			
Basic	**$ .18**	$ .23	$ (.22)
Diluted	**$ .18**	$ .23	$ (.22)
Weighted average shares used in computing net income (loss) per share			
Basic	**7,048,000**	7,059,000	5,881,000
Diluted	**7,083,000**	7,098,000	5,881,000

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

Fifty-Three Weeks Ended March 31, 2002 and Fifty-Two Weeks Ended March 25, 2001 and March 26, 2000

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Equity
					Shares	Amount	
Balance, March 29, 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
Repurchase of treasury stock	—	—	—	—	41,691	(135)	(135)
Net income	—	—	—	1,249	—	—	1,249
Balance, March 31, 2002	**7,065,202**	**$71**	**$40,746**	**$(4,537)**	**41,691**	**$(135)**	**$36,145**

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended	
	March 31, 2002	March 25, 2001	March 26, 2000
Cash Flows From Operating Activities:			
Net income (loss)	**$ 1,249**	$ 1,606	$(1,270)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities			
Depreciation and amortization	**1,661**	1,791	1,358
Amortization of intangible assets	**888**	839	716
(Gain) loss on disposal of fixed assets	**(1,226)**	—	123
Stock compensation expense	**—**	78	—
Impairment of long-lived assets	**685**	127	465
Impairment of notes receivable	**185**	151	840
Provision for doubtful accounts	**267**	191	895
Equity in losses of unconsolidated affiliate	**—**	—	163
Deferred income taxes	**509**	313	(958)
Changes in operating assets and liabilities, net of effects from acquisition of Miami Subs			
Marketable securities and investment in limited partnership	**(4,171)**	(1,651)	270
Notes and accounts receivable	**(26)**	(1,350)	(504)
Inventories	**(69)**	20	3
Prepaid expenses and other current assets	**(295)**	(339)	(187)
Other assets	**104**	159	182
Accounts payable, accrued expenses and other current liabilities	**(2,538)**	961	(158)
Deferred franchise fees	**(324)**	(76)	721
Other liabilities	**20**	1,329	(682)
Net cash (used in) provided by operating activities	**(3,081)**	4,149	1,977
Cash Flows From Investing Activities:			
Cash acquired in connection with merger, net of transaction costs	**—**	—	3,429
Lease terminations and other costs in connection with acquisition	**—**	(1,036)	—
Purchases of property and equipment	**(2,082)**	(1,458)	(1,975)
Purchase of intellectual property	**—**	—	(1,590)
Payments received on notes receivable	**812**	506	320
Proceeds from sales of property and equipment	**3,348**	45	—
Net cash provided by (used in) investing activities	**2,078**	(1,943)	184
Cash Flows From Financing Activities:			
Principal repayments of borrowing	**(1,353)**	(278)	(1,929)
Repurchase of treasury stock	**(135)**	—	—
Net cash used in financing activities	**(1,488)**	(278)	(1,929)
Net change in cash and cash equivalents	**$(2,491)**	$ 1,928	$ 232
Cash and Cash Equivalents, beginning of year	**4,325**	2,397	2,165
Cash and Cash Equivalents, end of year	**$ 1,834**	$ 4,325	$ 2,397
Cash Paid During the Year for:			
Interest	**$ 264**	$ 317	$ 207
Income taxes	**$ 149**	$ 1,508	$ 831
Noncash Financing Activities:			
Loan to franchisee in connection with sale of restaurant	**$ 416**	$ 130	$ —
Common stock, warrants and options issued in connection with acquisition	**$ —**	$ —	$ 8,269

The accompanying notes are an integral part of these statements.

Note A—Description and Organization of Business

1. Description of Business

Nathan's Famous, Inc. and subsidiaries (collectively the "Company" or "Nathan's") has historically operated, in one business segment, 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 31, 2002, the Company's restaurant system, consisting of Nathan's Famous, Kenny Rogers Roasters and Miami Subs restaurants, included 22 company-owned units concentrated in the New York metropolitan area (including New Jersey) and Florida, 364 franchised or licensed units, including three units operating pursuant to management agreements and approximately 1,500 branded product points of sale under the Nathan's Branded Product Program, located in 39 states, the District of Columbia, and 14 foreign countries.

2. 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.

Note B—Summary of Significant Accounting Policies

1. 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.

2. 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 the fiscal year ended March 31, 2002 is on the basis of a 53-week reporting period. The results of operations for the fiscal years ended March 25, 2001 and March 26, 2000 are on the basis of a 52-week reporting period.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

4. 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 31, 2002 and March 25, 2001, respectively, and is included in cash and cash equivalents. At March 31, 2002 and March 25, 2001, cash and cash equivalents included unexpended Miami Subs' advertising funds of $0 and $2,104, respectively.

5. Impairment of Notes Receivable

In accordance with Statement of Financial Accounting Standards No. 114 ("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 E). Following is a summary of the impaired notes receivable:

	March 31, 2002	March 25, 2001
Total recorded investment in impaired notes receivable	**$1,000**	$1,105
Allowance for impaired notes receivable	**(640)**	(613)
Recorded investment in impaired notes receivable, net	**$ 360**	$ 492

Based on the present value of the estimated cash flows of identified impaired note receivables, the Company has recognized approximately $47 and $63 of interest income on these notes for the fiscal years ended March 31, 2002 and March 25, 2001, respectively.

6. 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.

7. Marketable Securities and Investment in Limited Partnership

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of the classification at each reporting date. At March 31, 2002, all marketable securities and investment in limited partnership held by the Company have been classified as trading and, as a result, are stated at fair value. Realized gains and losses on the sale of securities, as determined on a specific identification basis, as well as unrealized holding gains and losses on trading securities are included in the accompanying consolidated statements of operations. 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 of America.

8. 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. SFAS No. 66 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 SFAS No. 66, 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. The Company continues to record depreciation expense on the property subject to the sales contracts that are accounted for under the deposit method 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 31, 2002 and March 25, 2001, the Company had deposits of $214 and $332, respectively, included in accrued expenses in the accompanying consolidated balance sheets.

During the fiscal year ended March 31, 2002, the Company sold two company-owned restaurants and a nonrestaurant property for total proceeds of $3,348. The Company recognized a gain of $1,226 in connection with these sales.

9. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are 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 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

10. Intangible Assets

Intangible assets consist of (i) the goodwill resulting from the Acquisition; (ii) trademarks and trade names, franchise rights and recipes in connection with Roasters; and (iii) goodwill and certain identifiable intangibles resulting from the Miami Subs acquisition (Note C). These intangible assets are being amortized over periods from 10 to 40 years.

11. Long-Lived Assets

Long-lived assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment is measured by comparing the carrying

value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In instances where impairment is determined to exist, the Company writes down the asset to its fair value based on the present value of estimated future cash flows.

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 two, one and three units that have been impaired, and recorded impairment charges of $685, $127 and $465 in the statements of operations for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

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. No impairment charges have been recorded with respect to such intangible assets for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000 (Note B-22).

12. 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.

13. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, marketable securities and investment in limited partnership, accounts receivable and accounts payable approximate fair value due to the short-term maturities of the instruments. The carrying amounts of note payable and capital lease obligations and notes receivable approximate their fair values.

14. 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.

15. Start-up Costs

Preopening and similar costs are expensed as incurred.

16. Revenue Recognition—Company-owned Restaurants

Sales by Company-owned restaurants are recognized on a cash basis, upon the performance of services.

17. Revenue Recognition—Franchising Operations

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 nonrefundable 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 deemed collectible. Revenue from sub-leasing properties to franchisees is recognized as income as the revenue is earned and becomes receivable and deemed 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 31, 2002 and March 25, 2001, $332 and $656, respectively, of deferred franchise fees are included in the accompanying consolidated balance sheets.

18. 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 31, 2002, one franchisee represented 13% of franchise royalties receivable and at March 25, 2001, one franchisee represented 10% of franchise royalties receivable (Note E).

19. 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 $940, $1,602 and $888, for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

20. 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 carryforwards. 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.

21. Reclassifications

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

22. Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, Nathan's is required to adopt SFAS No. 142 effective in its next fiscal year, commencing April 1, 2002.

The Company will no longer amortize existing goodwill and certain intangible assets having indefinite lives, thereby reducing amortization expense by approximately $600 per year. The Company expects to complete its impairment analysis during the first quarter of fiscal 2003 and expects to recognize an impairment charge of approximately $12.0 to $13.0 million upon the adoption of SFAS No. 142.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Nathan's is currently evaluating the effect of adoption on its financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The provisions of SFAS No. 144 are required to be adopted no later than fiscal years beginning after December 31, 2001, with early adoption encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 144, which the Company expects will not be material.

Note C—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 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" ("APB No. 16"). 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 underperforming 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 31, 2002, 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)
	$ 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 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
Total revenues	$50,455
Net loss	$(1,466)
Net loss per share:	
Basic	$ (.21)
Diluted	$ (.21)
Weighted average shares used in computing net loss per share:	
Basic	7,040,000
Diluted	7,040,000

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 period presented or of the results which may occur in the future.

Note D—Net Income (Loss) Per Share

Basic earnings per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding and excludes any dilutive effects of stock options or warrants. Diluted earnings per common share gives effect to all potentially dilutive common shares that were outstanding during the period. Dilutive common shares used in the computation of diluted earnings per common share result from the assumed exercise of stock options and warrants, using the treasury stock method.

The following chart provides a reconciliation of information used in calculating the per share amounts for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively:

	Net Income (Loss)			Shares			Net Income (Loss) Per Share		
	2002	2001	2000[1]	**2002**	2001	2000[1]	**2002**	2001	2000[1]
Basic EPS									
Basic calculation	**$1,249**	$1,606	$(1,270)	**7,048,000**	7,059,000	5,881,000	**$.18**	$.23	$(.22)
Effect of dilutive employee stock options and warrants	**—**	—	—	**35,000**	39,000	—	**—**	—	—
Diluted EPS									
Diluted calculation	**$1,249**	$1,606	$(1,270)	**7,083,000**	7,098,000	5,881,000	**$.18**	$.23	$(.22)

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

Note E—Notes and Accounts Receivable, Net

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

	March 31, 2002	March 25, 2001
Notes receivable, net of impairment charges	**$2,662**	$2,874
Franchise and license royalties	**1,376**	2,499
Branded product sales	**785**	730
Other	**906**	684
	5,729	6,787
Less: allowance for doubtful accounts	**644**	880
Notes receivable due after one year	**2,277**	1,729
Notes and accounts receivable, net	**$2,808**	$4,178

Notes receivable at March 31, 2002 and March 25, 2001 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 5% and 10%.

Note F—Marketable Securities and Investment in Limited Partnership

Marketable securities at March 31, 2002 and March 25, 2001 consisted of trading securities with aggregate fair values of $8,819 and $4,648, 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 for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000 were as follows:

	2002		2001		2000	
	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
Municipal bonds	**$(20)**	**$7,801**	$ 16	$3,628	$ 3	$1,540
Investment in trading limited partnerships*	**(2)**	**1,018**	(438)	1,020	420	1,457
	$(22)	**$8,819**	$(422)	$4,648	$423	$2,997

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

Note G—Property and Equipment, net

Property and equipment consist of the following:

	March 31, 2002	March 25, 2001
Construction-in-progress	**$ 842**	$ 141
Land	**1,665**	1,983
Building and improvements	**2,245**	3,083
Machinery, equipment, furniture and fixtures	**6,602**	7,202
Leasehold improvements	**7,201**	7,949
	18,555	20,358
Less: accumulated depreciation and amortization	**9,630**	9,079
	$ 8,925	$11,279

Depreciation expense on property and equipment was $1,661, $1,791 and $1,358 for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

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. 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 in the accompanying consolidated balance sheet. Concurrent with the sale, the Company satisfied the related note payable of approximately $793 plus accrued interest, and accordingly, had classified the remaining balance at March 25, 2001 as current in the accompanying consolidated balance sheet. The Company appealed the value of this property and on November 19, 2001, an Order was entered by the Circuit Court of the 11th Judicial Circuit of Florida in and for Miami-Dade County pursuant to which the State of Florida Department of Transportation was ordered to pay to the Company an aggregate value of $2,350, plus legal fees in the amount of $253 in connection with the condemnation by the State of Florida of the restaurant. The additional proceeds received by the Company of approximately $850 is recorded in "investment and other income" in the accompanying consolidated statements of operations.

Note H—Intangible Assets, net

Intangible assets consist of the following:

	March 31, 2002	March 25, 2001
Goodwill	**$17,043**	$17,043
Trademark, trade name, franchise rights and recipes	**7,031**	7,031
	24,074	24,074
Less accumulated amortization	**6,951**	6,063
Intangible assets, net	**$17,123**	$18,011

Amortization expense related to these intangible assets was $888, $839 and $716 for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

Note I—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31, 2002	March 25, 2001
Payroll and other benefits	**$ 1,455**	$ 1,365
Professional and legal costs	**407**	898
Self-insured retention	**1,346**	825
Rent, occupancy and sublease termination costs	**831**	1,236
Taxes payable	**595**	512
Unexpended advertising funds	**—**	2,104
Other	**1,872**	1,745
	$ 6,506	$ 8,685

Note J—Notes Payable and Capitalized Lease Obligations

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

	March 31, 2002	March 25, 2001
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	**$ 1,333**	$ 1,505
Note payable to bank at 8.0% through January 2002	**—**	806
Note payable to bank at 1.5% over prime and maturing in 2001	**—**	354
Note payable to bank at 8.75% and maturing in 2003	**381**	397
Capital lease obligations and other	**65**	70
	1,779	3,132
Less current portion	**(559)**	(1,343)
Long-term portion	**$ 1,220**	$ 1,789

The above notes are secured by the related property and equipment.

In August 2001, Miami Subs entered into an agreement with a franchisee and a bank, which called for the assumption of a note payable by the franchisee and the repayment of an existing note receivable from the franchisee. The Company guarantees the franchisee's note payable with the bank. The Company's maximum obligation for loans funded by the lender, as of March 31, 2002, was approximately $333.

At March 31, 2002, the aggregate annual maturities of notes payable and capitalized lease obligations are as follows:

2003	$ 559
2004	173
2005	173
2006	174
2007	174
Thereafter	526
	$1,779

The Company 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, 2002, and bears interest at the prime rate (4.75% at March 31, 2002). There were no borrowings outstanding under this line of credit as of March 31, 2002.

Note K—Other (Income) Expense, net

Included in other (income) expense in the accompanying consolidated statements of operations is (i) the reversal of a previous litigation accrual of ($210) for the fiscal year ended March 31, 2002, (ii) $463 in lease termination costs for the fiscal year ended March 25, 2001, and (iii) $236 in connection with the satisfaction of certain financial guarantees and $191 in lease expense resulting from the default of subleases for the fiscal year ended March 26, 2000.

Note L—Income Taxes

Income tax provision (benefit) consists of the following for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000:

	2002	2001	2000
Federal			
Current	**$911**	$ 868	$ 461
Deferred	**(93)**	246	(719)
	818	1,114	(258)
State and local			
Current	**160**	235	247
Deferred	**(16)**	67	(239)
	144	302	8
	$962	$1,416	$(250)

Total income tax provision (benefit) for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000 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:

	2002	2001	2000
Computed "expected" tax (benefit) expense	**$752**	$1,027	$(516)
Nondeductible amortization	**169**	222	212
State and local income taxes, net of Federal income tax benefit	**106**	199	8
Tax-exempt investment earnings	**(68)**	(30)	(30)
Nondeductible meals and entertainment and other	**3**	(2)	76
	$962	$1,416	$(250)

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

	March 31, 2002	March 25, 2001
Deferred tax assets:		
Accrued expenses	**$1,164**	$ 602
Allowance for doubtful accounts	**291**	352
Impairment of notes receivable	**256**	245
Deferred revenue	**978**	1,243
Depreciation expense and impairment of long-lived assets	**1,101**	2,134
Expenses not deductible until paid	**130**	372
Amortization of intangibles	**105**	70
Net operating loss and other carryforwards	**676**	2,326
Other	**59**	106
Total gross deferred tax assets	**4,760**	7,450
Deferred tax liabilities:		
Amortization of intangibles	**422**	—
Unrealized gain on marketable securities and income on investment in limited partnership	**207**	209
Other	**320**	720
Total gross deferred tax liabilities	**949**	929
Net deferred tax asset	**3,811**	6,521
Less valuation allowance	**(525)**	(2,726)
	$3,286	$ 3,795

The determination that the net deferred tax asset of $3,286 and $3,795 at March 31, 2002 and March 25, 2001, respectively, is realizable is based on anticipated future taxable income.

At March 31, 2002, as a result of settling the Miami Subs IRS audits for the years 1991 through 1996, the Company had a net operating loss carryforward of approximately $1,289 remaining (after certain IRS agreed-upon adjustments and other reductions due to expiring losses) which is available to offset future taxable income through 2005 and general business credit carryforwards remaining of approximately $87 which may be used to offset liabilities through 2008. These losses and credits are subject to limitations imposed under the Internal Revenue Code pursuant to Section 382 regarding changes in ownership. As a result of these limitations, the Company has recorded a valuation allowance for the Miami Subs loss carryforwards and credits related to the acquisition (Note N-3).

Note M—Stockholders' Equity, Stock Plans and Other Employee Benefit Plans

1. Stock Option Plans

On December 15, 1992, the Company adopted the 1992 Stock Option Plan (the "1992 Plan"), which provides for the issuance of incentive stock options ("ISO's") to officers and key employees and nonqualified stock options to directors, officers and key employees. Up to 525,000 shares of common stock have been reserved for issuance under the 1992 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 nonqualified stock options outstanding under the 1992 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 nonqualified stock options to nonemployee 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 nonemployee director are fully vested, subject to forfeiture under certain conditions and shall be exercisable upon vesting.

In April 1998, the Company adopted the Nathan's Famous Inc. 1998 Stock Option Plan (the "1998 Plan"), which provides for the issuance of nonqualified stock options to directors, officers and key employees. Up to 500,000 shares of common stock have been reserved for issuance under the 1998 Plan.

In June 2001, the Company adopted the Nathan's Famous Inc. 2001 Stock Option Plan (the "2001 Plan"), which provides for the issuance of nonqualified stock options to directors, officers and key employees. Up to 350,000 shares of common stock have been reserved for issuance under the 1998 Plan.

The 1992 Plan, the 1998 Plan, the 2001 Plan and the Directors' Plan expire on December 2, 2002, April 5, 2008, June 13, 2011 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.

2. Warrants

In November 1996, the Company granted to a nonemployee 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 expired, unexercised, on November 24, 2001.

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 31, 2002, March 25, 2001 and March 26, 2000 and changes during the fiscal years then ended is presented in the tables and narrative below:

	2002		2001		2000	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding—beginning of year	**1,514,209**	**$3.86**	1,614,924	$ 4.79	707,667	$ 5.08
Granted	**307,000**	**3.20**	—	—	512,006	3.34
Replacement options—Miami Subs	**—**	**—**	—	—	478,584	6.04
Canceled	**(63)**	**6.20**	(100,715)	10.60	(83,333)	5.50
Options outstanding—end of year	**1,821,146**	**4.29**	1,514,209	3.86	1,614,924	4.79
Options exercisable—end of year	**1,367,479**		1,220,876		1,086,424	
Weighted average fair value of options granted		**$1.30**		$ —		$ 2.10
Warrants outstanding—beginning of year	**368,750**	**$4.53**	401,200	$ 5.66	350,000	$ 3.88
Replacement warrants—Miami Subs	**—**	**—**	—	—	63,700	24.09
Expired	**(50,000)**	**3.94**	(32,450)	18.61	(12,500)	49.63
Warrants outstanding—end of year	**318,750**	**4.62**	368,750	4.53	401,200	5.66
Warrants exercisable—end of year	**318,750**		368,750		401,200	
Weighted average fair value of warrants granted		**$ —**		$ —		$ —

At March 31, 2002, 153,666 common shares were reserved for future stock option grants.

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 31, 2002:

	Options and Warrants Outstanding			Options and Warrants Exercisable	
Range of Exercise Prices	Number Outstanding at 3/31/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 3/31/02	Weighted Average Exercise Price
$3.19 to $ 4.00	1,459,558	6.7	$ 3.35	1,005,891	$ 3.39
4.01 to 7.00	580,588	2.5	5.41	580,588	5.41
7.01 to 22.25	99,750	1.8	12.61	99,750	12.61
$3.19 to $22.25	2,139,896	5.3	$ 4.34	1,686,229	$ 4.63

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:

	2002	2000
Expected life (years)	**6.6**	6.3
Interest rate	**4.06%**	6.22%
Volatility	**32.3%**	59.3%
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 (loss) and income (loss) per share would approximate the pro forma amounts below:

	2002	2001	2000
Net income (loss):			
As reported	**$1,249**	$1,606	$(1,270)
Pro forma	**839**	1,248	(1,907)
Net income (loss) per share:			
Basic			
As reported	**$ .18**	$ .23	$ (.22)
Pro forma	**.12**	.18	(.32)
Diluted			
As reported	**$ .18**	$ .23	$ (.22)
Pro forma	**.12**	.18	(.32)

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.

3. 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 9,358,764 shares of common stock for issuance upon exercise of the Rights.

4. Stock Repurchase Plan

On September 14, 2001, the Board of Directors of the Company authorized the repurchase of up to 1,000,000 shares of the Company's common stock. Purchases of stock will be made from time to time, depending on market conditions, in open market or in privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the purchases. The Company expects to fund these stock repurchases from its operating cash flow. Through March 31, 2002, 41,691 shares have been repurchased at a cost of approximately $135.

On April 10, 2002, the Company repurchased 751,000 shares of the Company's common stock for aggregate consideration of $2,741 in a private transaction with a stockholder.

5. 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 pretax 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 pro rated 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 of the fiscal year immediately preceding the fiscal year of 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, 2001, based on the original terms, and no nonrenewal notice has been given as of May 24, 2002. 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 one executive of Miami Subs entered into a change of control agreement effective November 1, 2001 for annual compensation of $130 per year. The 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.

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 and for compensation of $125 per year. 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 the employee's 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.

6. 401(k) Plan

The Company has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all nonunion 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 31, 2002, March 25, 2001 and March 26, 2000 were $36, $25 and $21, respectively.

7. Other Benefits

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

Note N—Commitments and Contingencies

1. 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 31, 2002, the Company has noncancelable operating lease commitments, net of certain sublease rental income, as follows:

	Lease Commitments	Sublease Income	Net Lease Commitments
2003	$ 4,784	$ 2,434	$ 2,350
2004	4,313	2,080	2,233
2005	4,209	2,005	2,204
2006	3,988	1,904	2,084
2007	3,763	1,762	2,001
Thereafter	13,194	7,416	5,778
	$34,251	$17,601	$16,650

Aggregate rental expense, net of sublease income, under all current leases amounted to $2,734, $3,549 and $2,848 for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

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 subleases provide for minimum annual rental payments by the Company aggregating approximately $2.4 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 $129, $123 and $123 for the fiscal years ended March 31, 2002, March 25, 2001 and March 26, 2000, respectively.

The Company 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 31, 2002, was approximately $1.4 million.

The Company also guarantees a franchisee's note payable with a bank. The Company's maximum obligation for loans funded by the lender, as of March 31, 2002, was approximately $333.

2. Contingencies

Nathan's Famous, Inc. and Nathan's Famous Operating Corp. were named as two of three defendants in an action commenced in July 2001, in the Supreme Court of New York, Westchester County. According to the amended complaint, the plaintiffs, a minor and her mother, are seeking damages in the amount of $17 million against Nathan's Famous, Inc. and Nathan's Famous Operating Corp. and one of Nathan's Famous' former employees claiming that the Nathan's entities failed to properly supervise minor employees, failed to monitor its supervisory personnel, and were negligent in hiring, retaining and promoting the individual defendant, who allegedly molested, harassed and raped the minor plaintiff, who was also an employee. On May 29, 2002, as a result of a mediation, this action was settled, subject to final Court approval. In the event the Court approves the settlement, the plaintiffs will be paid $650 which has been accrued for as a component of "Accrued expenses and other current liabilities" in the accompanying balance sheets.

An action has been commenced, in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, in September 2001 against Miami Subs and EKFD Corporation, a Miami Subs franchisee (the "franchisee") claiming negligence in connection with a slip and fall which allegedly occurred on the premises of the franchisee for unspecified damages. Pursuant to the terms of the Miami Subs Franchise Agreement, the franchisee is obligated to indemnify Miami Subs and hold them harmless against claims asserted and procured an insurance policy which named Miami Subs as an additional insured. Miami Subs has denied any liability to plaintiffs and has made demand upon the franchisee's insurer to indemnify and defend against the claims asserted. The insurer has agreed to indemnify and defend Miami Subs and has assumed the defense of this action for Miami Subs.

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.

3. Miami Subs Tax Audit

As a result of the Miami Subs acquisition, the Company obtained a net operating loss carryforward of approximately $5.9 million and a general business credit carryforward of approximately $274. The Miami Subs Federal income tax returns for all fiscal years 1991 through 1996, inclusive, have been examined by the Internal Revenue Service. In January 2002, the Miami Subs tax audit was settled with the IRS Appeals Office. The settlement resulted in a reduction of the net operating loss carryforward to $4,004 and an adjustment to the general business credit to $300. Each of these carryforwards were subject to reductions due to various expiration dates. In addition to these adjustments, the Company made tax and interest payments totaling $344 in full settlement of the audit. As of March 31, 2002, the remaining net operating loss carryforward is $1,289 and the remaining general business credit is $87. These losses and credits are subject to limitations imposed under the Internal Revenue Code pursuant to section 382 regarding changes in ownership. As a result of these limitations, the Company has recorded a valuation allowance for the remaining Miami Subs loss carryforwards and credits related to the acquisition.

Note O—Related Party Transactions

As of March 31, 2002, Miami Subs leased two 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 31, 2002 under these existing leases was approximately $1.2 million.

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 served as a member of the Board of Directors of Arthur Treacher's, Inc. until March 2002 when Arthur Treacher's, Inc. was sold in a private transaction. Miami Subs has been granted certain exclusive co-branding rights by Arthur Treacher's, Inc. and Mr. Perlyn had been granted options to acquire approximately 175,000 shares of Arthur Treacher's common stock. These options were converted into options of the entity that sold Arthur Treacher's, Inc.

Note P—Significant Fourth Quarter Adjustments

During the fourth quarter of fiscal 2002, 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, impairment charges on certain notes receivable of $185 and impairment charges on fixed assets of $685 were recorded in the fourth quarter. 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.

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.

Note Q—Quarterly Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2002				
Revenues	**$11,876**	**$11,785**	**$10,380**	**$10,358**
Gross profit[(a)]	**2,988**	**3,200**	**2,317**	**2,201**
Net income (loss)	**962**	**654**	**263**	**(630)**
Per share information				
Net income (loss) per share:				
Basic[(b)]	**$ .14**	**$ .09**	**$ .04**	**$ (.09)**
Diluted[(b)]	**$ .14**	**$ .09**	**$ .04**	**$ (.09)**
Shares used in computation of net income (loss) per share:				
Basic[(b)]	**7,065,000**	**7,065,000**	**7,038,000**	**7,024,000**
Diluted[(b)]	**7,084,000**	**7,080,000**	**7,062,000**	**7,107,000**
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

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

(b) The sum of the quarters may 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 CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Nathan's Famous, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Nathan's Famous, Inc. (a Delaware Corporation) and subsidiaries (the "Company") as of March 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the fifty-three weeks then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 31, 2002, and the results of their operations and their cash flows for the fifty-three weeks then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Melville, New York
May 24, 2002 (except for Note N-2, as to which the date is May 29, 2002)

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

This Report of Independent Certified Public Accountants is a copy of a previously issued Arthur Andersen LLP ("Andersen") report and has not been reissued by Andersen. The inclusion of this previously issued Andersen report is pursuant to the "Temporary Final Rule and Final Rule: Requirements for Arthur Andersen LLP Auditing Clients," issued by the U.S. Securities and Exchange Commission in March 2002. Note that this previously issued Andersen report includes references to certain fiscal years, which are not required to be presented in the accompanying consolidated financial statements as of and for the fiscal years ended March 31, 2002.

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® ("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 31, 2002		
First quarter	**$3.50**	**$2.87**
Second quarter	**3.55**	**3.10**
Third quarter	**3.60**	**3.07**
Fourth quarter	**3.62**	**3.21**
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 7, 2002, the closing price per share for our common stock, as reported by Nasdaq, was $3.8820.

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 7, 2002, we had 830 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 Thursday, September 12, 2002 in the Conference Room on the lower level of 1400 Old Country Road, 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 J. Eide
Chairman & Chief Executive Officer, AEGIS Capital Corp.

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

Brian Genson
President, Pole Position Investments

A.F. Petrocelli
Chairman, President & Chief Executive Officer,
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

Grant Thornton LLP
One Huntington Quadrangle, 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

1400 Old Country Road, Westbury, New York 11590
516-338-8500 Telephone
516-338-7220 Facsimile

Company Website

www.nathansfamous.com

Designed by Curran & Connors, Inc. / www.curran-connors.com

1400 Old Country Road, Suite 400 • Westbury, New York 11590

www.nathansfamous.com

"A Family of Brands

Positioned for Growth."