



More Than Just the  
Best Hot Dog!



## FINANCIAL HIGHLIGHTS

*(dollars in thousands, except per share amounts)*

	Fiscal Year		
	2003	2002*	2001
<b>Systemwide Data:</b>			
Sales**	<b>\$248,722</b>	\$265,478	\$287,097
Number of outlets, at year end***	<b>355</b>	386	411
<b>Selected Consolidated Financial Data:</b>			
Revenues from continuing operations	<b>\$ 33,930</b>	\$ 39,542	\$ 42,227
(Loss) income from continuing operations	<b>\$ (1,506)</b>	\$ 1,392	\$ 1,585
(Loss) income from discontinued operations	<b>\$ (124)</b>	\$ (143)	\$ 21
Cumulative effect of accounting change	<b>\$ (12,338)</b>	\$ 0	\$ 0
Net earnings (loss)****	<b>\$ (13,968)</b>	\$ 1,249	\$ 1,606
Basic (loss) earnings per share****			
(Loss) income from continuing operations	<b>\$ (0.25)</b>	\$ 0.20	\$ 0.23
(Loss) income from discontinued operations	<b>\$ (0.03)</b>	\$ (0.02)	\$ 0.00
Cumulative effect of accounting change	<b>\$ (2.06)</b>	\$ 0.00	\$ 0.00
Basic (loss) earnings per share****	<b>\$ (2.34)</b>	\$ 0.18	\$ 0.23
Diluted (loss) earnings per share****			
(Loss) income from continuing operations	<b>\$ (0.25)</b>	\$ 0.20	\$ 0.23
(Loss) income from discontinued operations	<b>\$ (0.03)</b>	\$ (0.02)	\$ 0.00
Cumulative effect of accounting change	<b>\$ (2.06)</b>	\$ 0.00	\$ 0.00
Diluted (loss) earnings per share****	<b>\$ (2.34)</b>	\$ 0.18	\$ 0.23
Weighted-average number of common shares outstanding			
Basic	<b>5,976</b>	7,048	7,059
Diluted*****	<b>5,976</b>	7,083	7,098
Total assets	<b>\$ 25,886</b>	\$ 48,745	\$ 51,826
Stockholders' equity	<b>\$ 16,383</b>	\$ 36,145	\$ 35,031

\* Our fiscal year ends on the last Sunday in March which results in a 52- or 53-week year. Fiscal 2002 was a 53-week year.

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

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

\*\*\*\* In fiscal 2003, provisions, net of income taxes, of \$14.2 million or \$2.37 per share were recorded associated with asset impairments and vacant properties.

\*\*\*\*\* Common stock equivalents have been excluded in fiscal 2003 as the impact of their inclusion would have been anti-dilutive.

## PROFILE

Nathan's began as a nickel hot dog stand in Coney Island in 1916 and has become a much-loved "New York institution" now available throughout the United States and overseas.

Through our innovative points-of-distribution strategies, Nathan's products are marketed within our restaurants and throughout a wide spectrum of other foodservice and retail environments. Our Branded Product Program provides for the sale of Nathan's signature products in over 2,500 foodservice locations. Further, Nathan's hot dogs are now featured in over 6,000 supermarkets and club stores throughout the United States.

Continued market penetration of our highly recognized and valued brands and products through a wide variety of distribution channels, continues to provide new and exciting growth opportunities for our Company.

Fiscal 2003 has been both an exciting year, highlighted by certain significant advances, as well as a challenging year of transition.

**CORPORATE**

The Company completed the repurchase of one million shares of its common stock pursuant to its share repurchase program adopted on September 14, 2001. As of June 30, 2003, the Company has also repurchased an additional 698,838 shares pursuant to its share repurchase program adopted on October 7, 2002, to repurchase up to an additional million shares of its common stock.

The financial results of fiscal 2003 were substantially effected by certain non-cash charges. We implemented a new accounting standard, whereby goodwill and certain other intangible assets were written down by \$13,192,000. In addition, we recorded other impairment charges totaling \$2,792,000 relating to seven underperforming restaurants and nine notes receivable. Nathan's also recorded an additional depreciation expense of approximately \$428,000 in connection with early restaurant lease terminations.

In conjunction with changes in our business, management implemented a corporate expense reduction plan. We anticipate that total corporate G&A expenses in fiscal 2004

will be approximately \$1,000,000 lower than G&A expenses incurred in fiscal 2003.

**POINTS-OF-DISTRIBUTION STRATEGY**

We continue to grow through advances in our points-of-distribution strategy and brand-marketing approach.

The Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, generated sales of approximately \$6,509,000 during fiscal 2003 as compared to sales of \$4,864,000 during fiscal 2002.

Royalties derived from our supermarket licensing agreements were about \$2,470,000 during fiscal 2003 as compared to royalties received in fiscal 2002 of about \$1,962,000.

We look forward to continuing our successful expansion in these areas. Nathan's signed a new three-year pact with the New York Yankees and will remain the official hot dog at Yankee Stadium through 2006. We also anticipate additional royalties from new licensing agreements, to include testing the sales of Nathan's french fries in supermarkets.



Excitement!

INTRODUCING NEW PRODUCTS



name recognition

**RESTAURANT OPERATIONS**

During fiscal 2003, twelve new franchise outlets opened. We project that more than twenty additional outlets will open during fiscal 2004.

The number of company-owned restaurants has been reduced over the course of the past two years. We intend to limit our company-owned operations to seven financially-strong units by the end of fiscal 2004.

Co-branding activities continue within our restaurant system as certain Kenny Rogers Roasters signature products are being introduced into Nathan's restaurants.

Internationally, we opened our first Nathan's franchised restaurant in China and have signed agreements to develop Nathan's in Japan. In July of 2003, Nathan's products became available for purchase by U.S. troops stationed in Kuwait.

**CONCLUSION**

At June 30, 2003, Nathan's Famous, Inc. consisted of 348 franchised and licensed units, nine company-owned units, and over 2,500 branded product points of sale,

located within forty-one states, the District of Columbia, and twelve foreign countries featuring the Nathan's, Miami Subs, and Kenny Rogers Roasters brands. Further, Nathan's products are sold in over 6,000 supermarkets and club stores throughout the U.S.

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



Hot Dog! NEW OPPORTUNITIES  
expanding our presence

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 30, 2003	March 31, 2002 <sup>(1)</sup>	March 25, 2001	March 26, 2000 <sup>(2)</sup>	March 28, 1999
<b>Statement of Operations Data:</b>					
<b>Revenues:</b>					
Sales	<b>\$ 24,920</b>	\$ 27,492	\$ 29,852	\$ 25,601	\$ 19,756
Franchise fees and royalties	<b>5,977</b>	7,944	8,814	5,906	3,230
License royalties, investment and other income	<b>3,033</b>	4,106	3,561	2,343	1,953
Total revenues	<b>33,930</b>	39,542	42,227	33,850	24,939
<b>Costs and Expenses:</b>					
Cost of sales	<b>16,750</b>	18,336	19,217	16,460	12,252
Restaurant operating expenses	<b>5,621</b>	6,559	7,621	7,231	4,862
Depreciation and amortization	<b>1,314</b>	1,395	1,535	1,142	851
Amortization of intangible assets	<b>278</b>	888	839	716	384
General and administrative expenses	<b>8,600</b>	9,292	8,978	8,222	4,722
Interest expense	<b>132</b>	256	310	198	1
Impairment of long-lived assets	<b>1,367</b>	392	127	465	302
Impairment of notes receivable	<b>1,425</b>	185	151	840	—
Other (income) expense	<b>232</b>	(210)	462	427	(349)
Total costs and expenses	<b>35,719</b>	37,093	39,240	35,701	23,025
(Loss) income from continuing operations before income taxes	<b>(1,789)</b>	2,449	2,987	(1,851)	1,914
(Benefit) provision for income taxes	<b>(283)</b>	1,057	1,402	(382)	(576)
(Loss) income from continuing operations	<b>(1,506)</b>	1,392	1,585	(1,469)	2,490
<b>Discontinued Operations:</b>					
(Loss) income from discontinued operations before income taxes	<b>(206)</b>	(238)	35	331	396
(Benefit) provision for income taxes	<b>(82)</b>	(95)	14	132	158
(Loss) income from discontinued operations	<b>(124)</b>	(143)	21	199	238
(Loss) income before cumulative effect of accounting change	<b>(1,630)</b>	1,249	1,606	(1,270)	2,728
Cumulative effect of change in accounting principle, net of tax benefit of \$854	<b>(12,338)</b>	—	—	—	—
Net (loss) income	<b>\$ (13,968)</b>	\$ 1,249	\$ 1,606	\$ (1,270)	\$ 2,728
<b>Basic (Loss) Income Per Share:</b>					
(Loss) income from continuing operations	<b>\$ (0.25)</b>	\$ 0.20	\$ 0.23	\$ (0.25)	\$ 0.53
(Loss) income from discontinued operations	<b>(0.03)</b>	(0.02)	0.00	0.03	0.05
Cumulative effect of change in accounting principle	<b>(2.06)</b>	—	—	—	—
Net (loss) income	<b>\$ (2.34)</b>	\$ 0.18	\$ 0.23	\$ (0.22)	\$ 0.58

*(Continued)*

	Fiscal Years Ended				
	March 30, 2003	March 31, 2002 <sup>(1)</sup>	March 25, 2001	March 26, 2000 <sup>(2)</sup>	March 28, 1999
<b>Diluted (Loss) Income Per Share<sup>(3)</sup>:</b>					
(Loss) income from continuing operations	\$ (0.25)	\$ 0.20	\$ 0.23	\$ (0.25)	\$ 0.52
(Loss) income from discontinued operations	(0.03)	(0.02)	0.00	0.03	0.05
Cumulative effect of change in accounting principle	(2.06)	—	—	—	—
Net (loss) income	\$ (2.34)	\$ 0.18	\$ 0.23	\$ (0.22)	\$ 0.57
Dividends	—	—	—	—	—
Weighted-average shares used in computing net income (loss) per share					
Basic	5,976	7,048	7,059	5,881	4,722
Diluted <sup>(3)</sup>	5,976	7,083	7,098	5,881	4,753
<b>Balance Sheet Data at End of Fiscal Year:</b>					
Working capital (deficit)	\$ 5,935	\$ 9,565	\$ 5,210	\$ (322)	\$ 3,708
Total assets	25,886	48,745	51,826	48,583	31,250
Long-term debt, net of current maturities	1,053	1,220	1,789	3,131	0
Stockholders' equity	\$ 16,383	\$ 36,145	\$ 35,031	\$ 33,347	\$ 26,348
<b>Selected Restaurant Operating Data:</b>					
Systemwide Restaurant Sales:					
Company-owned <sup>(4)</sup>	\$ 21,955	\$ 27,484	\$ 30,946	\$ 27,478	\$ 21,981
Franchised	161,740	185,389	208,889	152,627	64,178
Total	\$183,695	\$212,873	\$239,835	\$180,105	\$86,159
<b>Number of Units Open at End of Fiscal Year:</b>					
Company-owned	12	22	25	32	25
Franchised	343	364	386	415	163
Total	355	386	411	447	188

*Notes to Selected Financial Data*

(1) Our fiscal year ends on the last Sunday in March which results in a 52- or 53-week year. Fiscal 2002 was a 53-week year.

(2) On April 1, 1999, Nathan's acquired the intellectual property of Roasters Corp. and Roasters Franchise Corp. On September 30, 1999, Nathan's completed the acquisition of Miami Subs Corp. by acquiring the remaining 70% of the outstanding common stock Nathan's did not already own.

(3) Common stock equivalents have been excluded from the computation for the years ended March 30, 2003 and March 26, 2000 as the impact of their inclusion would have been anti-dilutive.

(4) Company-owned restaurant sales represent sales from restaurants presented as continuing operations and discontinued operations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## 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 our existing restaurant system. Currently, the Arthur Treacher's brand is being sold within 125 Nathan's, Kenny Rogers Roasters and Miami Subs restaurants, the Nathan's brand is included on the menu of 81 Miami Subs and Kenny Rogers restaurants, while the Kenny Rogers Roasters brand is being sold within 69 Miami Subs and Nathan's restaurants.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 16 of those properties, sold one of the properties to a non-franchisee and are continuing to market the remaining property for sale. We also terminated 10 additional leases for properties outside of the divestiture plan and may terminate additional leases in the future that were not part of our divestiture plan.

At March 30, 2003, our combined system consisted of 343 franchised or licensed units, 12 company-owned units and over 2,200 Nathan's Branded Product points of sale that feature Nathan's world famous all-beef hot dogs, located in 41 states, the District of Columbia and 12 foreign countries. At March 30, 2003, our company-owned restaurant system included eight Nathan's units and four Miami Subs units, as compared to 16 Nathan's units, four Miami Subs units and two Kenny Rogers Roasters units at March 31, 2002.

## 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 judgement due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts.

### *Impairment of Goodwill and Other Intangible Assets*

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") 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. The most significant assumptions which are used in this test are estimates of future cash flows. We typically use the same assumptions for this test as we use in the development of our business plans. If these assumptions differ significantly from actual results, additional impairment expenses may be required. In the first quarter of fiscal 2003, Nathan's adopted SFAS No. 142. In connection with the implementation of this new standard, Goodwill, Trademarks, Trade Names and Recipes were deemed to be impaired and their carrying value was written down by \$13,192,000, or \$12,338,000, net of income tax benefit of \$854,000.

### *Impairment of Long-Lived Assets*

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144") requires management judgements 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. 144 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 \$1,367,000 relating to seven restaurants during the fifty-two weeks ended March 30, 2003.

### *Impairment of Notes Receivable*

Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan," requires management judgements 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: a) indications that the borrower is experiencing business problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions; b) whether the loan is secured by collateral that is not readily marketable; or c) 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 debtor'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 \$1,425,000 relating to nine notes during the fifty-two weeks ended March 30, 2003.

### **Revenue Recognition**

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 are 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."

### **Self-insurance Liabilities**

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. In conjunction with our external risk manager, we have completed an evaluation of the outstanding claims and reserves relating to prior years and have reversed \$196,000 of previously recorded self-insurance accruals during the fiscal year ended March 30, 2003 for those claims on which the Company's exposure has been settled.

### **Results of Operations**

#### **Fiscal Year Ended March 30, 2003 Compared to Fiscal Year Ended March 31, 2002**

##### **Revenues from Continuing Operations**

Total sales from continuing operations decreased by 9.4% or \$2,572,000 to \$24,920,000 for the fifty-two weeks ended March 30, 2003 ("fiscal 2003 period") as compared to \$27,492,000 for the fifty-three weeks ended March 31, 2002 ("fiscal 2002 period"). Sales from the Branded Product Program increased by 33.8% to \$6,509,000 for the fiscal 2003 period as compared to sales of \$4,864,000 in the fiscal 2002 period. Company-owned restaurant sales decreased 18.6% or \$4,217,000 to \$18,411,000 from \$22,628,000 primarily due to the operation of five fewer company-owned stores as compared to the prior fiscal year and an overall 5.3% sales decrease at our comparable restaurants (consisting of eight Nathan's and four Miami Subs restaurants). The reduction in company-owned stores is the result of our franchising three restaurants and selling two restaurants, one of which was to the State of Florida pursuant to an order of condemnation. The financial impact associated with these five restaurants lowered restaurant sales by \$3,294,000 and improved restaurant operating profits by \$52,000 versus the fiscal 2002 period. During the fiscal 2002 period, approximately \$341,000 in restaurant sales were generated during the additional week of operations.

Franchise fees and royalties decreased by 24.8% or \$1,967,000 to \$5,977,000 in the fiscal 2003 period compared to \$7,944,000 in the fiscal 2002 period. Franchise royalties decreased by \$1,409,000 or 20.8% to \$5,352,000 in the fiscal 2003 period as compared to \$6,761,000 in the fiscal 2002 period. The majority of this decline is due to the decrease in the amount of franchise sales, primarily within the South Florida marketplace for the Miami Subs brand, causing an increase in the

amount of royalties deemed unrealizable during the fiscal 2003 period as compared to the fiscal 2002 period. Royalty income was not recorded from 59 domestic franchised locations during the fiscal 2003 period as compared to 48 domestic franchised locations during the fiscal 2002 period as a result of determining that collectibility of the royalties was not reasonably assured. Domestic franchise restaurant sales decreased by 12.8% to \$161,740,000 in the fiscal 2003 period as compared to \$185,389,000 in the fiscal 2002 period. At March 30, 2003, 343 franchised or licensed restaurants were operating as compared to 364 franchised or licensed restaurants at March 31, 2002. Franchise fee income derived from new openings, co-branding activities and forfeitures was \$625,000 in the fiscal 2003 period as compared to \$1,183,000 in the fiscal 2002 period. This decrease was attributable to lower franchise fees earned of \$247,000, the reduction in co-branding fees earned of \$210,000 and lower forfeitures of \$101,000 between the two periods. Revenues from new unit openings were lower during the fiscal 2003 period as compared to the fiscal 2002 period although 24 new franchised restaurants were opened, including our first Nathan's unit in China and nine Kenny Rogers Roasters units in foreign countries, as compared to 18 new franchised restaurants during the fiscal 2002 period. Franchise fees attributable to new Kenny Rogers Roasters restaurants is recognized upon payment by the franchisee, which payments have not been received. During the fiscal 2002 period, the one-time co-branding initiative was substantially concluded. During the fiscal 2003 period, we earned \$207,000 in connection with the termination of two Master Development Agreements in accordance with their terms due to non-compliance by the franchisees as compared to \$308,000 during the fiscal 2002 period in connection with forfeited area development fees.

License royalties were \$2,585,000 in the fiscal 2003 period as compared to \$2,038,000 in the fiscal 2002 period. This increase is attributable to higher royalties earned from sales made by SFG, Inc., Nathan's licensee for the sale of Nathan's frankfurters within supermarkets and club stores, the manufacture of certain proprietary spices and seasonings, the sale of condiments sold under the Nathan's brand and royalties earned under a new license agreement in connection with the Branded Product Program.

Interest income decreased by \$208,000 to \$292,000 in the fiscal 2003 period versus \$500,000 in the fiscal 2002 period due to lower interest income on its investments in marketable securities and its notes receivable.

Investment and other income decreased by \$1,412,000 to \$156,000 in the fiscal 2003 period versus \$1,568,000 in the fiscal 2002 period. During the fiscal 2003 period, Nathan's investment loss was approximately \$206,000 greater than in the fiscal 2002 period due primarily to differences in performance of the financial markets during the time that Nathan's maintained its investments in "trading securities," which "trading securities" were substantially liquidated in October 2002, as compared to being held for the entire fiscal 2002 period. Nathan's loss from sub-leasing was approximately \$28,000 more than in the fiscal 2002 period. In the fiscal 2003 period, Nathan's realized a gain of \$135,000 in connection with the early termination of a Branded Product Program sales agreement. During the fiscal 2003 period, Nathan's earned approximately \$126,000 less miscellaneous income than in the fiscal 2002 period principally in connection with its ice cream sales. During the fiscal 2002 period, Nathan's recognized net gains of \$1,226,000 which included \$850,000 from the successful appeal of a condemnation award from the State of Florida and gains primarily in connection with the sale of two company-owned restaurants and one non-restaurant property.



### **Costs and Expenses from Continuing Operations**

Cost of sales from continuing operations decreased by \$1,586,000 to \$16,750,000 in the fiscal 2003 period from \$18,336,000 in the fiscal 2002 period. During the fiscal 2003 period, restaurant cost of sales were lower than the fiscal 2002 period by approximately \$2,661,000. Cost of sales were lower by approximately \$2,237,000 as a result of operating fewer company-owned restaurants. The cost of restaurant sales at our comparable units as a percentage of restaurant sales was 62.6% in the fiscal 2003 period as compared to 61.5% in the fiscal 2002 period due primarily to higher labor costs. Higher product and other direct costs of approximately \$1,075,000 were incurred in connection with the growth of our Branded Product Program which was partially offset by lower commodity costs during the fiscal 2003 period. During the fiscal 2003 period, commodity prices of our primary meat products were in line with historical norms as compared to being at their highest levels in recent years through most of the twenty-six weeks ended September 23, 2001.

Restaurant operating expenses from continuing operations decreased by \$938,000 to \$5,621,000 in the fiscal 2003 period from \$6,559,000 in the fiscal 2002 period. Restaurant operating costs were lower in the fiscal 2003 period by approximately \$1,105,000, as compared to the fiscal 2002 period as a result of operating fewer restaurants. The reduction in restaurant operating expenses from operating fewer restaurants was partially offset by higher occupancy and current insurance costs net of lower marketing and utility costs during the fiscal 2003 period.

Depreciation and amortization from continuing operations decreased by \$81,000 to \$1,314,000 in the fiscal 2003 period from \$1,395,000 in the fiscal 2002 period due to our additional capital spending.

Amortization of intangibles decreased by \$610,000 to \$278,000 in the fiscal 2003 period from \$888,000 in the fiscal 2002 period. Amortization of intangibles decreased as a result of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" in the first quarter of fiscal 2003. Pursuant to SFAS No. 142, we have discontinued the amortization of Goodwill, Trademarks, Trade Names and Recipes.

General and administrative expenses decreased by \$692,000 to \$8,600,000 in the fiscal 2003 period as compared to \$9,292,000 in the fiscal 2002 period. The decrease in general and administrative expenses was due primarily to lower litigation expense of approximately \$450,000, lower bad debts expense of approximately \$185,000, lower compensation and related expenses of approximately \$106,000 and lower travel expenses of \$106,000 which were partly offset by higher insurance costs of approximately \$172,000.

Interest expense was \$132,000 during the fiscal 2003 period as compared to \$256,000 during the fiscal 2002 period. The reduction in interest expense relates primarily to the repayment of outstanding bank debt between the two periods.

Impairment charge on long-lived assets of \$1,367,000 during the fiscal 2003 period represents the write-down relating to seven underperforming stores, three of which are expected to continue operating.

Impairment charge on notes receivable of \$1,425,000 during the fiscal 2003 period relates to the write-down of nine notes receivable.

Other expense in the fiscal 2003 period represents lease reserves relating to four vacant properties. 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.

### **(Benefit) Provision for Income Taxes from Continuing Operations**

In the fiscal 2003 period, the income tax benefit from continuing operations was \$283,000 or 15.8% of loss from continuing operations before income taxes as compared to a provision for income taxes of \$1,057,000

or 43.2% of income from continuing operations before income taxes in the fiscal 2002 period. The effective income tax rate was lower in the fiscal 2003 period due in part to the adoption of SFAS No. 142 which requires that goodwill no longer be amortized. Such goodwill amortization was not tax deductible by Nathan's which increased the effective tax rate in prior years.

### **Discontinued Operations**

During the fiscal 2003 period, discontinued operations included eight Company-owned restaurants, all of which were abandoned, including seven which were abandoned in connection with the Home Depot early lease terminations. Revenues generated by these eight restaurants were \$3,543,000 during the fiscal 2003 period as compared to \$4,857,000 during the fiscal 2002 period. Losses before income taxes from these restaurants were \$206,000 during the fiscal 2003 period as compared to \$238,000 during the fiscal 2002 period. The fiscal 2003 loss before tax included \$428,000 of additional depreciation expense due to a change in the estimated useful lives of the restaurants operating within Home Depot Improvement Centers for which Nathan's received early lease termination notifications during the second quarter fiscal 2003 period.

### **Cumulative Effect of Change in Accounting Principle**

In the first quarter fiscal 2003 period, Nathan's adopted SFAS No. 142, "Goodwill and Other Intangibles." In connection with the implementation of this new standard, Goodwill, Trademarks, Trade Names and Recipes were deemed to be impaired and their carrying value was written down by \$13,192,000, or \$12,338,000, net of tax.

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

#### **Revenues from Continuing Operations**

Total sales from continuing operations decreased by 7.9% or \$2,360,000 to \$27,492,000 for the fifty-three weeks ended March 31, 2002 ("fiscal 2002 period") as compared to \$29,852,000 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 13.0% or \$3,371,000 to \$22,628,000 from \$25,999,000 primarily due to operating nine fewer company-owned stores as compared to the prior fiscal period and lower sales at the new restaurant 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 \$362,000 in restaurant sales were generated during the additional week of operations. The unit reduction was 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 divestiture 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 nine

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 3.3% 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 was 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 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 was 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 were 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 was comprised of higher royalties earned from sales by SFG, Inc., Nathan's licensee for the sale of Nathan's frankfurters within supermarkets and club stores.

Interest income was \$500,000 in the fiscal 2002 period versus \$537,000 in the fiscal 2001 period which was due primarily to earning lower interest rates on our investments due to changes in the marketplace.

Investment income was \$1,568,000 in the fiscal 2002 period versus \$1,066,000 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 loss was approximately \$384,000 less 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, SFG, Inc.

#### ***Costs and Expenses from Continuing Operations***

Cost of sales from continuing operations decreased by \$881,000 to \$18,336,000 in the fiscal 2002 period from \$19,217,000 in the fiscal 2001 period. During the fiscal 2002 period, restaurant cost of sales were lower than the fiscal 2001 period by approximately \$1,980,000. 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 one of the Kenny Rogers Roasters restaurants opened

last year partly offset the higher costs at our comparable restaurants. Notwithstanding the lower costs and expenses of the Kenny Rogers Roasters restaurant, this restaurant continued to underperform. Consequently, we decided to sell the Kenny Rogers Roasters restaurant in Rockville Centre, New York in fiscal 2003. The cost of restaurant sales at our comparable units as a percentage of restaurant sales was 62.1% in the fiscal 2002 period as compared to 60.9% 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.

Restaurant operating expenses from continuing operations decreased by \$1,062,000 to \$6,559,000 in the fiscal 2002 period from \$7,621,000 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 Kenny Rogers Roasters restaurant opened last year were \$40,000 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 \$330,000 at the comparable restaurants which were primarily driven by higher marketing and insurance costs.

Depreciation and amortization from continuing operations decreased by \$140,000 to \$1,395,000 in the fiscal 2002 period from \$1,535,000 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 fiscal 2001'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 fiscal 2001'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 long-lived assets from continuing operations of \$392,000 during the fiscal 2002 period and \$127,000 during the fiscal 2001 period reflect write-downs relating to one underperforming store 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.

#### **Provision for Income Taxes from Continuing Operations**

In the fiscal 2002 period, the provision for income taxes from continuing operations was \$1,057,000 or 43.2% as compared to \$1,402,000 or 46.9% of income from continuing operations before income taxes in the fiscal 2001 period.

#### **Discontinued Operations**

Discontinued operations is comprised of eight Company-owned restaurants, all of which were abandoned during fiscal 2003, including seven which were abandoned in connection with the Home Depot early lease terminations. Revenues generated by these eight restaurants were \$4,857,000 during the fiscal 2002 period as compared to \$4,947,000 during the fiscal 2001 period. Loss before income taxes from these restaurants was \$238,000 during the fiscal 2002 period as compared to income before income taxes of \$35,000 during the fiscal 2001 period.

#### **Liquidity and Capital Resources**

Cash and cash equivalents at March 30, 2003 aggregated \$1,415,000, decreasing by \$419,000 during the fiscal 2003 period. At March 30, 2003, marketable securities and investment in limited partnership decreased by \$4,196,000 from March 31, 2002 to \$4,623,000 and net working capital decreased to \$5,935,000 from \$9,565,000 at March 31, 2002. During fiscal 2003, Nathan's liquidated its investment in limited partnership and invested the proceeds with its other marketable securities.

Cash provided by operations of \$2,296,000 in the fiscal 2003 period is primarily attributable to net loss of \$13,968,000, non-cash charges of \$17,482,000, including the cumulative effect of accounting change of \$12,338,000, depreciation and amortization of \$1,907,000, impairment charges on long-lived assets and notes receivable of \$2,792,000, amortization of intangible assets of \$278,000, provision for doubtful accounts of \$82,000 and amortization of bond premium of \$85,000. Changes in the other assets and liabilities consisted of decreases in marketable securities and investment in limited partnership of \$981,000, prepaid expenses and other current assets of \$627,000, inventories of \$203,000, accounts payable and accrued expenses of \$1,647,000, other liabilities of \$577,000 and deferred franchise fees of \$205,000.

Cash provided by investing activities of \$3,696,000 in the fiscal 2003 period is comprised primarily of proceeds from the sale of available for sale securities of \$6,088,000, proceeds from the sale of a restaurant and other fixed assets of \$781,000 and repayments on notes receivable of \$273,000 which were partly offset by the purchases of available for sale securities of \$2,884,000 and expenditures relating to capital improvements of selected company-owned restaurants and other fixed asset additions of \$562,000.

Cash used in financing activities of \$6,411,000 in the fiscal 2003 period represents repurchases of 1,599,547 shares of common stock at a total cost of \$5,858,000 and repayments of notes payable and obligations under capital leases in the amount of \$553,000, including the repayment of a mortgage in the amount of \$373,000 on December 31, 2002.

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 one million shares of common stock in open market transactions and a private transaction at a total cost of \$3,670,000 through the quarter ended September 29, 2002. On October 7, 2002, Nathan's was authorized to purchase up to one million additional shares of its common stock. Through March 30, 2003, Nathan's purchased 641,238 shares of common stock at a cost of approximately \$2,323,000. Subsequent to March 30, 2003, Nathan's purchased an additional 57,600 shares of common stock at a cost of approximately \$211,000. To date, Nathan's has purchased a total of 1,698,838 shares of common stock at a cost of approximately \$6,204,000. We expect to make additional purchases of stock 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. Nathan's expects to fund these stock repurchases from its operating cash flow.

We expect that we will make additional investments in certain existing restaurants in the future and that we expect to fund those investments from our operating cash flow. We do not expect to incur significant capital expenditures to develop new company-owned restaurants through March 29, 2004.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 16 of those properties, sold one of the remaining properties to a non-franchisee and are continuing to market the remaining property for sale. The sale of the restaurant was consummated on October 4, 2002. Since acquiring Miami Subs, 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 having total future minimum lease obligations of \$7,680,000 that had 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.

There are currently 33 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 including: rent, property taxes and insurance. 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 30, 2003 was approximately \$1,004,000.

The following schedules represent Nathan's cash contractual obligations and the expiration of other contractual commitments by maturity (in thousands):

Cash Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 1,167	\$ 167	\$ 333	\$ 333	\$ 334
Capital lease obligations	59	6	14	17	22
Employment agreements	1,071	733	338	—	—
Operating leases	25,657	4,204	8,041	6,885	6,527
Gross cash contractual obligations	27,954	5,110	8,726	7,235	6,883
Sublease income	12,606	1,969	3,744	3,072	3,821
Net cash contractual obligations	\$15,348	\$3,141	\$4,982	\$4,163	\$3,062

  

Other Contractual Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Loan guarantees	\$ 1,004	\$ 363	\$ 408	\$ 233	\$ —
Total commercial commitments	\$ 1,004	\$ 363	\$ 408	\$ 233	\$ —

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 never borrowed any funds 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. However, due to the changing composition of our restaurants, we believe that future revenues will be highest during our first two fiscal quarters with the fourth fiscal quarter representing the slowest period.

### 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. However, during the first half of the fiscal 2002 period, commodity prices of our primary meat products were at their highest levels in recent years. These costs were in line with historical norms during the fiscal 2003 period. We also experienced increased costs for utilities and insurance during the fiscal 2002 and 2003 periods. Last year, various Federal and New York State legislators proposed changes to the minimum wage requirements, however, none of the proposals were enacted. We believe that 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 June 2001, the Financial Accounting Standards Board ("FASB") 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 has evaluated the effect of adoption on its financial position and results of operations, and it is not expected to have a material impact on the financial position and results of operations of the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current criteria for extraordinary classification. Additionally, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. In addition, SFAS No. 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. SFAS No. 145 also contains other nonsubstantive corrections to authoritative accounting literature. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. SFAS No. 145 has not had, and is not expected to have, a material impact on the financial position and results of operations of the Company.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. SFAS No. 146 is effective for disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the financial position and results of operations of the Company.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure" which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS No. 148 provides alternative methods of transition for a voluntary change to fair value-based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 had no impact on the financial position and results of operations of the Company.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except for the provisions that were cleared by the FASB in prior pronouncements. The Company is currently evaluating the effect of the adoption of SFAS No. 149 on its financial position and results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective for the year ended December 31, 2003. The Company is currently evaluating the effect of the adoption of SFAS No. 150 on its financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN No. 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN No. 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements for

periods ending after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has adopted FIN No. 46 effective January 31, 2003. The Company does not anticipate that the adoption of FIN No. 46 will have a material impact on the Company's consolidated financial condition or results of operations taken as a whole.

### **Forward-Looking Statements**

Certain statements contained in this report are forward-looking statements. Forward-looking statements represent our current judgment regarding future events. Although we would not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which we are not aware. These risks and uncertainties, many of which are not within our control, include, but are not limited to: economic, weather, legislative and business conditions; the 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.

### **Qualitative and Quantitative Disclosures About Market Risk**

#### **Cash and Cash Equivalents**

We have historically invested our cash and cash equivalents in short-term, fixed rate, highly rated and highly liquid instruments which are reinvested when they mature throughout the year. Although our existing investments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on short-term investments could be affected at the time of reinvestment as a result of intervening events. As of March 30, 2003, Nathan's cash and cash equivalents aggregated \$1,415,000. Earnings on these cash and cash equivalents would increase or decrease by approximately \$3,500 per annum for each .25% change in interest rates.

### Marketable Investment Securities

We have invested our marketable investment securities in intermediate term, fixed rate, highly rated and highly liquid instruments. These investments are subject to fluctuations in interest rates. As of March 30, 2003, the market value of Nathan's marketable investment securities aggregated \$4,623,000. Interest income on these marketable investment securities would increase or decrease by approximately \$11,600 per annum for each .25% change in interest rates. The following chart presents the hypothetical changes in the fair value of the marketable investment securities held at March 30, 2003 that are sensitive to interest rate fluctuations (in thousands):

Municipal notes and bonds	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150BPS)	(100BPS)	(50BPS)		+50BPS	+100BPS	+150BPS
	\$4,843	\$4,777	\$4,712	\$4,650	\$4,589	\$4,530	\$4,473

### Investment in Limited Partnership

We had invested in a highly liquid investment limited partnership that invested principally in equity securities. These investments were subject to the performance of the equity markets. During fiscal 2003, Nathan's liquidated its investment in limited partnership. Accordingly, Nathan's investment in limited partnership has no further exposure to the equity markets.

### Borrowings

The interest rate on our borrowings is generally determined based upon prime rate and may be subject to market fluctuation as the prime rate changes as determined within each specific agreement. We do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings. At March 30, 2003, total outstanding debt, including capital leases, aggregated \$1,226,000 of which \$1,167,000 is at risk due to changes in interest rates. The current interest rate is 4.50% per annum and will adjust in January 2006 and 2009 to prime plus .25%. Nathan's also maintains a \$7,500,000 credit line which bears interest at the prime rate (4.25% at March 30, 2003). The Company has never borrowed any funds under this line. Accordingly, the Company does not believe that fluctuations in interest rates would have a material impact on its financial results.

### Commodity Costs

The cost of commodities are subject to market fluctuation. We have not attempted to hedge against fluctuations in the prices of the commodities we purchase using future, forward, option or other instruments. As a result, our future commodities purchases are subject to changes in the prices of such commodities. Generally, we attempt to pass through permanent increases in our commodity prices to our customers, thereby reducing the impact of long-term increases on our financial results. A short-term increase or decrease of 10% in the cost of our food and paper products for the entire fifty-two weeks ended March 30, 2003 would have increased or decreased cost of sales by approximately \$1,133,000.

### Foreign Currencies

Foreign franchisees generally conduct business with us and make payments in United States dollars, reducing the risks inherent with changes in the values of foreign currencies. As a result, we have not purchased future contracts, options or other instruments to hedge against changes in values of foreign currencies and we do not believe fluctuations in the value of foreign currencies would have a material impact on our financial results.

## CONSOLIDATED BALANCE SHEETS

*(in thousands, except share amounts)*

	<b>March 30, 2003</b>	March 31, 2002
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,415	\$ 1,834
Marketable securities and investment in limited partnership	4,623	8,819
Notes and accounts receivable, net	2,607	2,808
Inventories	389	592
Assets available for sale	799	1,512
Prepaid expenses and other current assets	642	1,269
Deferred income taxes	2,079	1,747
Total current assets	<b>12,554</b>	18,581
Notes receivable, net	740	2,277
Property and equipment, net	6,263	8,925
Goodwill	95	11,083
Intangible assets, net	3,319	6,040
Deferred income taxes	2,647	1,539
Other assets, net	268	300
	<b>\$ 25,886</b>	\$48,745
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable and capital lease obligations	\$ 173	\$ 559
Accounts payable	1,377	1,619
Accrued expenses and other current liabilities	4,942	6,506
Deferred franchise fees	127	332
Total current liabilities	<b>6,619</b>	9,016
Notes payable and capital lease obligations, less current maturities	1,053	1,220
Other liabilities	1,831	2,364
Total liabilities	<b>9,503</b>	12,600
<b>Commitments and Contingencies (Note L)</b>		
<b>Stockholders' Equity</b>		
Common stock, \$.01 par value; 30,000,000 shares authorized; 7,065,202 and 7,065,202 shares issued; and 5,423,964 and 7,023,511 shares outstanding at March 30, 2003 and March 31, 2002, respectively	71	71
Additional paid-in capital	40,746	40,746
Accumulated deficit	(18,505)	(4,537)
Accumulated other comprehensive income	64	—
	<b>22,376</b>	36,280
Treasury stock, at cost, 1,641,238 and 41,691 shares at March 30, 2003 and March 31, 2002, respectively	(5,993)	(135)
Total stockholders' equity	<b>16,383</b>	36,145
	<b>\$ 25,886</b>	\$48,745

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

*(in thousands, except share and per share amounts)*

	<b>Fifty-Two Weeks Ended</b>	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended
	<b>March 30, 2003</b>	March 31, 2002	March 25, 2001
<b>Revenues</b>			
Sales	<b>\$ 24,920</b>	\$27,492	\$29,852
Franchise fees and royalties	<b>5,977</b>	7,944	8,814
License royalties	<b>2,585</b>	2,038	1,958
Interest income	<b>292</b>	500	537
Investment and other income	<b>156</b>	1,568	1,066
Total revenues	<b>33,930</b>	39,542	42,227
<b>Costs and Expenses</b>			
Cost of sales	<b>16,750</b>	18,336	19,217
Restaurant operating expenses	<b>5,621</b>	6,559	7,621
Depreciation and amortization	<b>1,314</b>	1,395	1,535
Amortization of intangible assets	<b>278</b>	888	839
General and administrative expenses	<b>8,600</b>	9,292	8,978
Interest expense	<b>132</b>	256	310
Impairment charge on long-lived assets	<b>1,367</b>	392	127
Impairment charge on notes receivable	<b>1,425</b>	185	151
Other expense (income), net	<b>232</b>	(210)	462
Total costs and expenses	<b>35,719</b>	37,093	39,240
(Loss) income from continuing operations before (benefit) provision for income taxes	<b>(1,789)</b>	2,449	2,987
(Benefit) provision for income taxes	<b>(283)</b>	1,057	1,402
(Loss) income from continuing operations	<b>(1,506)</b>	1,392	1,585
(Loss) income from discontinued operations, net of income tax (benefit) provision of \$(82), \$(95) and \$14 in 2003, 2002 and 2001, respectively	<b>(124)</b>	(143)	21
(Loss) income from operations before cumulative effect of accounting change	<b>(1,630)</b>	1,249	1,606
Cumulative effect of change in accounting principle, net of tax benefit of \$854	<b>(12,338)</b>	—	—
Net (loss) income	<b>\$ (13,968)</b>	\$ 1,249	\$ 1,606
<b>Per Share Information</b>			
Basic (loss) income per share:			
(Loss) income from continuing operations	<b>\$ (.25)</b>	\$ .20	\$ .23
Loss from discontinued operations	<b>(.03)</b>	(.02)	.00
Cumulative effect of change in accounting principle	<b>(2.06)</b>	—	—
Net (loss) income	<b>\$ (2.34)</b>	\$ .18	\$ .23
Diluted (loss) income per share:			
(Loss) income from continuing operations	<b>\$ (.25)</b>	\$ .20	\$ .23
Loss from discontinued operations	<b>(.03)</b>	(.02)	.00
Cumulative effect of change in accounting principle	<b>(2.06)</b>	—	—
Net (loss) income	<b>\$ (2.34)</b>	\$ .18	\$ .23
Weighted-average shares used in computing net income (loss) per share			
Basic	<b>5,976,000</b>	7,048,000	7,059,000
Diluted	<b>5,976,000</b>	7,083,000	7,098,000

The accompanying notes are an integral part of these statements.



## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

*(in thousands, except share amounts)*

Fifty-Two Weeks Ended March 30, 2003, Fifty-Three Weeks Ended March 31, 2002 and  
Fifty-Two Weeks Ended March 25, 2001

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Compre- hensive Income	Treasury Stock, at Cost		Total Stock- holders' Equity	Compre- hensive Income (Loss)
						Shares	Amount		
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	\$ 1,606
Comprehensive income	—	—	—	—	—	—	—	—	\$ 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	\$ 1,249
Comprehensive income	—	—	—	—	—	—	—	—	\$ 1,249
Balance, March 31, 2002	7,065,202	71	40,746	(4,537)	—	41,691	(135)	36,145	
Repurchase of treasury stock	—	—	—	—	—	1,599,547	(5,858)	(5,858)	
Unrealized gain on marketable securities, net of deferred income taxes of \$46	—	—	—	—	64	—	—	64	\$ 64
Net loss	—	—	—	(13,968)	—	—	—	(13,968)	(13,968)
Comprehensive loss	—	—	—	—	—	—	—	—	\$(13,904)
<b>Balance, March 30, 2003</b>	<b>7,065,202</b>	<b>\$71</b>	<b>\$ 40,746</b>	<b>\$ (18,505)</b>	<b>\$64</b>	<b>1,641,238</b>	<b>\$ (5,993)</b>	<b>\$ 16,383</b>	

The accompanying notes are an integral part of this statement.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)*

	<b>Fifty-Two Weeks Ended</b>	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended
	<b>March 30, 2003</b>	March 31, 2002	March 25, 2001
<b>Cash Flows From Operating Activities:</b>			
Net (loss) income	<b>\$(13,968)</b>	\$ 1,249	\$ 1,606
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Cumulative effect of change in accounting principle, net of tax benefit	<b>12,338</b>	—	—
Depreciation and amortization	<b>1,907</b>	1,661	1,791
Amortization of intangible assets	<b>278</b>	888	839
Amortization of bond premium	<b>85</b>	—	—
Gain on disposal of fixed assets	<b>(39)</b>	(1,226)	—
Stock compensation expense	<b>—</b>	—	78
Gain on sale of available for sale securities	<b>(10)</b>	—	—
Impairment of long-lived assets	<b>1,367</b>	685	127
Impairment of notes receivable	<b>1,425</b>	185	151
Provision for doubtful accounts	<b>82</b>	267	191
Deferred income taxes	<b>(585)</b>	509	313
Changes in operating assets and liabilities:			
Marketable securities and investment in limited partnership	<b>981</b>	(4,171)	(1,651)
Notes and accounts receivable	<b>2</b>	(26)	(1,350)
Inventories	<b>203</b>	(69)	20
Prepaid expenses and other current assets	<b>627</b>	(295)	(339)
Other assets	<b>32</b>	104	159
Accounts payable, accrued expenses and other current liabilities	<b>(1,647)</b>	(2,538)	961
Deferred franchise fees	<b>(205)</b>	(324)	(76)
Other liabilities	<b>(577)</b>	20	1,329
Net cash provided by (used in) operating activities	<b>2,296</b>	(3,081)	4,149
<b>Cash Flows From Investing Activities:</b>			
Proceeds from sale of available for sale securities	<b>6,088</b>	—	—
Purchase of available for sale securities	<b>(2,884)</b>	—	—
Lease terminations and other costs in connection with acquisition	<b>—</b>	—	(1,036)
Purchases of property and equipment	<b>(562)</b>	(2,082)	(1,458)
Payments received on notes receivable	<b>273</b>	812	506
Proceeds from sales of property and equipment	<b>781</b>	3,348	45
Net cash provided by (used in) investing activities	<b>3,696</b>	2,078	(1,943)
<b>Cash Flows From Financing Activities:</b>			
Principal repayments of borrowing	<b>(553)</b>	(1,353)	(278)
Repurchase of treasury stock	<b>(5,858)</b>	(135)	—
Net cash used in financing activities	<b>(6,411)</b>	(1,488)	(278)
Net change in cash and cash equivalents	<b>(419)</b>	(2,491)	1,928
<b>Cash and Cash Equivalents, beginning of year</b>	<b>1,834</b>	4,325	2,397
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 1,415</b>	\$ 1,834	\$ 4,325
<b>Cash Paid During the Year for:</b>			
Interest	<b>\$ 138</b>	\$ 264	\$ 317
Income taxes	<b>\$ 57</b>	\$ 149	\$ 1,508
<b>Noncash Financing Activities:</b>			
Loan to franchisee in connection with sale of restaurant	<b>\$ 44</b>	\$ 416	\$ 130

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

March 30, 2003, March 31, 2002 and March 25, 2001

## 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 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 previously owned by the Company. 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. The Company considers its subsidiaries to be in the food service industry, and has pursued co-branding and co-hosting initiatives; accordingly, management has evaluated the Company as a single reporting unit.

At March 30, 2003, the Company's restaurant system, consisting of Nathan's Famous, Kenny Rogers Roasters and Miami Subs restaurants, included 12 company-owned units concentrated in the New York metropolitan area and Florida, 343 franchised or licensed units, including 6 units operating pursuant to management agreements and approximately 2,200 branded product points of sale under the Nathan's Branded Product Program, located in 41 states, the District of Columbia, and 12 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.

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 of 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 and cash flows for the fiscal year ended March 30, 2003 are on the basis of a 52-week reporting period. The results of operations and cash flows for the fiscal year ended March 31, 2002 are on the basis of a 53-week reporting period. The results of operations and cash flows for the fiscal year ended March 25, 2001 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. Significant estimates made by management in preparing the consolidated financial statements include the allowance for doubtful accounts, the allowance for impaired notes receivable, the self-insurance reserve, impairment charges on goodwill and long-lived assets, lease termination reserves and the deferred tax valuation allowance.

### 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 30, 2003 and March 31, 2002, respectively, and is included in cash and cash equivalents.

### 5. Impairment of Notes Receivable

Nathan's follows the guidance in Statement of Financial Accounting Standards No. 114 ("SFAS No. 114"), "Accounting by Creditors for Impairment of a Loan," as amended. 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: (a) indications that the borrower is experiencing business problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions, (b) loans secured by collateral that is not readily marketable, or (c) 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 debtor'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 generally 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. Following are summaries of impaired notes receivable and the allowance for impaired notes receivable:

	<b>March 30, 2003</b>	March 31, 2002
Total recorded investment in impaired notes receivable	<b>\$ 2,598</b>	\$1,000
Allowance for impaired notes receivable	<b>(2,065)</b>	(640)
Recorded investment in impaired notes receivable, net	<b>\$ 533</b>	\$ 360
Allowance for impaired notes receivable at beginning of fiscal year	<b>\$ 640</b>	\$ 613
Impairment charges on notes receivable	<b>1,425</b>	185
Direct writedowns of impaired notes receivable	<b>—</b>	(240)
Other increases in allowance for impaired notes receivable	<b>—</b>	82
Allowance for impaired notes receivable at end of fiscal period	<b>\$ 2,065</b>	\$ 640

Based on the present value of the estimated cash flows of identified impaired notes receivable, the Company records interest income on its impaired notes receivable on a cash basis. The following represents the interest income recognized and average recorded investment of impaired notes receivable.

	<b>March 30, 2003</b>	March 31, 2002	March 25, 2001
Interest income recorded on impaired notes receivable	<b>\$ 96</b>	\$ 47	\$ 112
Average recorded investment in impaired notes receivable	<b>\$1,624</b>	\$936	\$1,702

## 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 30, 2003 and March 31, 2002, all marketable securities held by the Company have been classified as either available for sale or 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. Unrealized gains and losses on available for sale securities are included as a component of accumulated other comprehensive income in the accompanying consolidated balance sheet. 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. During the fiscal year ended March 30, 2003, the Company liquidated its investment in limited partnership.

## 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 the full accrual method, 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 30, 2003 and March 31, 2002, the Company had deposits on the sales of restaurants of \$161 and \$214, respectively, included in accrued expenses in the accompanying consolidated balance sheets.

## 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. These intangible assets were being amortized over periods from 10 to 40 years through March 31, 2002.

On April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which supercedes APB Opinion No. 17, "Intangible Assets" and certain provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"). SFAS No. 142 required that goodwill and other intangibles be reported separately; eliminates the requirement to amortize goodwill and indefinite-lived intangible assets; addresses the amortization of intangible assets with a defined life; and addresses impairment testing and recognition of goodwill and intangible assets. SFAS No. 142 changes the method of accounting for the recoverability of goodwill for the Company, such that it is evaluated at the brand

level based upon the estimated fair value of the brand. Fair value can be determined based on discounted cash flows, on comparable sales or valuations of other restaurant brands. The impairment review involves a two-step process as follows:

Step 1: Compare the fair value for each reporting unit to its carrying value, including goodwill. For each reporting unit where the carrying value, including goodwill, exceeds the reporting unit's fair value, move on to step 2. If a reporting unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

Step 2: Allocate the fair value of the reporting unit to its identifiable tangible and intangible assets, excluding goodwill and liabilities. This will derive an implied fair value for the reporting unit's goodwill. Then, compare the implied fair value of the reporting unit's goodwill with the carrying amount of reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess. The transitional impairment charge, if any, is recorded as a cumulative effect of accounting change for goodwill.

The Company completed its initial SFAS No. 142 transitional impairment test of goodwill, including an assessment of a valuation of the Nathan's, Miami Subs and Roasters reporting units by an independent valuation consultant, and has recorded an impairment charge requiring the Company to write-off substantially all of the goodwill related to the acquisitions, trademarks and recipes as a cumulative effect of accounting change in the first quarter of fiscal 2003. The fair value was determined through the combination of a present value analysis as well as prices of comparative businesses. The changes in the net carrying amount of goodwill, trademarks and recipes recorded in the first quarter of fiscal 2003 are as follows:

	Goodwill	Trademarks	Recipes	Total
Balance as of April 1, 2002	\$ 11,083	\$ 2,242	\$ 30	\$ 13,355
Cumulative effect of accounting change for goodwill and other intangible assets	(10,988)	(2,174)	(30)	(13,192)
<b>Balance as of March 30, 2003</b>	<b>\$ 95</b>	<b>\$ 68</b>	<b>\$ —</b>	<b>\$ 163</b>

The table below presents amortized and unamortized intangible assets as of March 30, 2003 and March 31, 2002:

	March 30, 2003			March 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Royalty streams	\$4,259	\$(1,008)	\$3,251	\$ 4,259	\$ (747)	\$ 3,512
Favorable leases	285	(285)	—	285	(31)	254
Other	16	(16)	—	62	(60)	2
	<b>\$4,560</b>	<b>\$(1,309)</b>	<b>3,251</b>	<b>\$ 4,606</b>	<b>\$ (838)</b>	<b>3,768</b>
Unamortized intangible assets:						
Trademarks, tradenames and recipes			68	2,425	(153)	2,272
			<b>\$3,319</b>	<b>\$ 7,031</b>	<b>\$ (991)</b>	<b>\$ 6,040</b>
Goodwill			<b>\$ 95</b>	<b>\$17,043</b>	<b>\$(5,960)</b>	<b>\$11,083</b>

The following table provides a reconciliation of the reported net (loss) income and net (loss) income per share for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, adjusted as though SFAS No. 142 had been effective for all periods:

	2003	2002	2001
Reported net (loss) income before cumulative effect of change in accounting principle	\$ (1,630)	\$ 1,249	\$ 1,606
Add back discontinued amortization expense	—	555	555
Adjusted net (loss) income before cumulative effect of change in accounting principle	(1,630)	1,804	2,161
Cumulative effect of change in accounting principle	(12,338)	—	—
Adjusted net (loss) income	<b>\$(13,968)</b>	<b>\$1,804</b>	<b>\$2,161</b>
Reported basic net (loss) income per common share before cumulative effect of change in accounting principle	\$ (.28)	\$ .18	\$ .23
Effect of discontinued amortization expense	—	.08	.08
Adjusted basic net (loss) income per common share before cumulative effect of change in accounting principle	(.28)	.26	.31
Cumulative effect of change in accounting principle	(2.06)	—	—
Adjusted basic net (loss) income per common share	<b>\$ (2.34)</b>	<b>\$ .26</b>	<b>\$ .31</b>
Reported diluted net (loss) income per common share before cumulative effect of change in accounting principle	\$ (.28)	\$ .18	\$ .23
Effect of discontinued amortization expense	—	.07	.07
Adjusted diluted net (loss) income per common share before cumulative effect of change in accounting principle	(.28)	.25	.30
Cumulative effect of change in accounting principle	(2.06)	—	—
Adjusted diluted net (loss) income per common share	<b>\$ (2.34)</b>	<b>\$ .25</b>	<b>\$ .30</b>

As of March 30, 2003, the Company has reevaluated the impact of SFAS No. 142 on its goodwill, and no additional impairment charges were deemed necessary.

Total amortization expense for intangible assets was \$278, \$888 and \$839 for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001. The Company estimates future annual amortization expense of approximately \$261 per year for each of the next five years. In the fourth quarter of fiscal 2003, the Company recorded an impairment charge of \$239 related to its favorable leases. This impairment charge, which was based upon the fact that such locations had incurred negative cash flows from operations for fiscal 2003 and are projected to incur negative cash flows in fiscal 2004, is recorded as a component of impairment charge on long-lived assets. (See Note B-11.)

### 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 seven, two and one units that have been impaired, and recorded impairment charges of \$1,367 (inclusive of \$239 related to favorable leases), \$685 and \$127 in the statements of operations for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, 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. (See Note B-10 for a description of impairment charges recorded on goodwill and other intangible assets during the fiscal year ended March 30, 2003 as a result of the adoption of SFAS No. 142.) No impairment charges were recorded with respect to such intangible assets for the fiscal years ended March 31, 2002 and March 25, 2001.

### 12. Self-Insurance

The Company is self-insured for portions of its general liability coverage. As part of Nathan's risk management strategy, its insurance programs include deductibles for each incident and in the aggregate for a policy year. As such, Nathan's accrues estimates of its ultimate self-insurance costs throughout the policy year. These estimates have been developed based upon Nathan's historical trends, however, the final cost of many of these claims may not be known for five years or longer. Accordingly, Nathan's annual self-insurance costs may be subject to adjustment from previous estimates as facts and circumstances change. The self-insurance accruals at March 30, 2003 and March 31, 2002 were \$596 and \$1,346, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets. During the fiscal year ended March 30, 2003, the self-insurance accrual was reduced by approximately \$829, due principally to the satisfaction of a claim against the Company totaling \$659 (see Note L) and the reversal of approximately \$196 of previously recorded self-insurance accruals in connection with the conclusion of claims relating to prior policy years.

### 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 as the current interest rates on such instruments approximates current market interest rates on similar instruments.

### 14. Stock-Based Compensation

At March 30, 2003, the Company has five stock-based employee compensation plans, which are described more fully in Note K. The Company accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25") and has adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." Under APB No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Accordingly, no compensation expense has been recognized in the consolidated financial statements in connection with employee stock option grants.

The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	Fiscal Year Ended		
	March 30, 2003	March 31, 2002	March 25, 2001
Net (loss) income, as reported	<b>\$ (13,968)</b>	\$ 1,249	\$ 1,606
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	<b>(165)</b>	(410)	(358)
Pro forma net (loss) income	<b>\$ (14,133)</b>	\$ 839	\$ 1,248
(Loss) earnings per share			
Basic—as reported	<b>\$ (2.34)</b>	\$ .18	\$ .23
Diluted—as reported	<b>\$ (2.34)</b>	\$ .18	\$ .23
Basic—pro forma	<b>\$ (2.36)</b>	\$ .12	\$ .18
Diluted—pro forma	<b>\$ (2.36)</b>	\$ .12	\$ .18

Pro forma compensation expense may not be indicative of pro forma expense in future years. For purposes of estimating the fair value of each option on the date of grant, the Company utilized the Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted-average option fair values and the assumptions used to estimate these values are as follows:

	<b>2003</b>	2002
Weighted-average option fair values	<b>\$2.19</b>	\$1.30
Expected life (years)	<b>10.0</b>	6.6
Interest rate	<b>5.30%</b>	4.06%
Volatility	<b>32.8%</b>	32.3%
Dividend yield	<b>0%</b>	0%

There were no options or warrants granted during fiscal 2001.

#### 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 subleasing restaurant properties to franchisees.

Franchise and area development fees, which are typically received prior to completion of the revenue recognition process, are recorded as deferred revenue. Initial franchise fees are recognized as income when substantially all services to be performed by Nathan's and conditions relating to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations. The following services are typically provided by the Company prior to the opening of a franchised restaurant:

- Approval of all site selections to be developed.
- Provision of architectural plans suitable for restaurants to be developed.
- Assistance in establishing building design specifications, reviewing construction compliance and equipping the restaurant.
- Provision of appropriate menus to coordinate with the restaurant design and location to be developed.
- Provide management training for the new franchisee and selected staff.
- Assistance with the initial operations of restaurants being developed.

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. At March 30, 2003 and March 31, 2002, \$127 and \$332, respectively, of deferred franchise fees are included in the accompanying consolidated balance sheets. For the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, the Company earned franchise fees from new unit openings, transfers and co-branding of \$417, \$693 and \$525, respectively. During the fiscal year ended March 30, 2003, the Company recognized \$207 in connection with the forfeiture of two Master Development Agreements.

The following is a summary of franchise openings and closings for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001:

	<b>2003</b>	2002	2001
Franchised restaurants operating at the beginning of the period	<b>364</b>	386	415
New franchised restaurants opened during the period	<b>24</b>	18	21
Franchised restaurants closed during the period	<b>(45)</b>	(40)	(50)
Franchised restaurants operating at the end of the period	<b>343</b>	364	386

Revenue from subleasing 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 statements of operations. The Company recognizes franchise royalties when they are earned and deemed collectible. Franchise fees and royalties that are not deemed to be collectible are not recognized as revenue until paid by the franchisee.

#### 18. Revenue Recognition—Branded Products Operations

The Company recognizes revenue from the Branded Product Program when it is determined by the manufacturer that the products have been delivered via third-party common carrier to Nathan's customers. An accrual for the cost of the product to the Company is recorded simultaneously with the revenue.

#### 19. Interest Income

Interest income is accrued when it is earned and deemed realizable by the Company.

#### 20. Investment and Other Income (Loss)

The Company recognizes gains on the sale of fixed assets under the full accrual method in accordance with provisions of SFAS No. 66. (See Note B-8.)

Deferred revenue associated with supplier contracts is generally amortized on a straight-line basis over the life of the contract.

Investments classified as trading securities are recorded at fair value and the unrealized gains or losses are recognized as a component to the Company's "Investment and other income (loss)" on the consolidated statement of operations. During the fiscal year ended March 30, 2003, the Company liquidated its investment in trading securities.

Investment and other income (loss) consists of the following:

	<b>2003</b>	2002	2001
Gain on disposal of fixed assets	<b>\$ 39</b>	\$1,226	\$ —
Realized gains (losses) on marketable securities	<b>(242)</b>	7	(2)
Unrealized losses of trading securities	<b>—</b>	(43)	(420)
Loss on subleasing of rental properties	<b>(243)</b>	(215)	(194)
Gain from the early termination of sales agreement	<b>135</b>	—	—
Other income	<b>467</b>	593	1,682
	<b>\$ 156</b>	\$1,568	\$1,066

## 21. 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 30, 2003, no franchisee represented 10% or greater of franchise royalties receivable. At March 31, 2002, one franchisee represented 13% of franchise royalties receivable (Note D).

## 22. 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 to the advertising funds are based on specified percentages of net sales, generally ranging up to 3%. These advertising funds are separate entities, which are not a component of the consolidated group. Revenues and expenses of these advertising funds are excluded from the Company's statement of operations. Contributions to the advertising funds from Company-owned stores are included in restaurant operating expenses in the accompanying consolidated statements of operations. Net Company-owned store advertising expense was \$608, \$940 and \$1,602, for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, respectively.

## 23. Classification of Operating Expenses

Cost of sales consists of the following:

- The cost of products sold both in the Company-operated restaurants and the Branded Product Program.
- The cost of labor and associated costs of in-store restaurant management and crew.
- The cost of paper products used in Company-operated restaurants.
- Other direct costs of the Branded Product Program, such as commissions, freight and samples.

Restaurant operating expenses consist of the following:

- Occupancy costs of Company-operated restaurants.
- Utility costs of Company-operated restaurants.
- Repair and maintenance expenses of the Company-operated restaurant facilities.
- Marketing and advertising expenses done locally and contributions to advertising funds for Company-operated restaurants.
- Insurance costs directly related to Company-operated restaurants.

## 24. 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. A valuation allowance has been established to reduce deferred tax assets attributable to net operating losses and credits of Miami Subs.

## 25. Reclassifications

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

## 26. Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") 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. The Company has evaluated the effect of the adoption of SFAS No. 143 on its financial position and results of operations, and it is not expected to have a material impact on the financial position and results of operations of the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current criteria for extraordinary classification. Additionally, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. In addition, SFAS No. 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. SFAS No. 145 also contains other nonsubstantive corrections to authoritative accounting literature. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. SFAS No. 145 has not had, and is not expected to have, a material impact on the financial position and results of operations of the Company.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. SFAS No. 146 is effective for disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the financial position and results of operations of the Company.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure," which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS No. 148 provides alternative methods of transition for a voluntary change to fair value-based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. As discussed in Note B-14, the Company continues to account for stock-based compensation using the intrinsic value method in accordance with APB No. 25 and has adopted the disclosure provisions of SFAS No. 148. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 had no impact on the financial position and results of operations of the Company.



In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The Company is currently evaluating the effect of the adoption of SFAS No. 149 on its financial position and results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective for the year ended December 31, 2003. The Company is currently evaluating the effect of the adoption of SFAS No. 150 on its financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN No. 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN No. 45

are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has adopted FIN No. 46 effective January 31, 2003. The Company does not anticipate that the adoption of FIN No. 46 will have a material impact on the Company's consolidated financial condition or results of operations taken as a whole.

### Note C—(Loss) Income Per Share

Basic (loss) earnings per common share is calculated by dividing (loss) income 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 30, 2003, March 31, 2002 and March 25, 2001, respectively:

	(Loss) Income from Continuing Operations			Shares			(Loss) Income Per Share from Continuing Operations		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Basic EPS									
Basic calculation	<b>\$(1,506)</b>	\$1,392	\$1,585	<b>5,976,000</b>	7,048,000	7,059,000	<b>\$(.25)</b>	\$.20	\$.23
Effect of dilutive employee stock options and warrants	—	—	—	—	35,000	39,000	—	—	—
Diluted EPS									
Diluted calculation	<b>\$(1,506)</b>	\$1,392	\$1,585	<b>5,976,000</b>	7,083,000	7,098,000	<b>\$(.25)</b>	\$.20	\$.23

Options, warrants and common stock purchase rights to purchase 12,369,280 shares of the Company's common stock for the year ended March 30, 2003 were excluded from the calculation of diluted loss per share as the impact of their inclusion would have been anti-dilutive. Options, warrants and common stock purchase rights to purchase 11,226,016 and 11,019,142 shares of common stock for the years ended March 31, 2002 and March 25, 2001, respectively, were not included in the computation of diluted earnings per share because the exercise prices exceeded the average market price of common shares during the respective periods.

## Note D—Notes and Accounts Receivable, Net

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

	March 30, 2003	March 31, 2002
Notes receivable, net of impairment charges	\$ 998	\$2,662
Franchise and license royalties	1,465	1,376
Branded product sales	737	785
Other	565	906
	<b>3,765</b>	5,729
Less: allowance for doubtful accounts	418	644
Less: notes receivable due after one year	740	2,277
Notes and accounts receivable, net	<b>\$2,607</b>	\$2,808

Notes receivable at March 30, 2003 and March 31, 2002 principally resulted from sales of restaurant businesses to Miami Subs' and Nathan's 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%.

Accounts receivable are due within 30 days and are stated at amounts due from franchisees and licensees, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible.

Changes in the Company's allowance for doubtful accounts are as follows:

	2003	2002	2001
Beginning balance	\$ 644	\$ 880	\$ 809
Bad debt expense	82	267	191
Other	—	27	27
Accounts written off	(308)	(530)	(147)
Ending balance	<b>\$ 418</b>	\$ 644	\$ 880

## Note E—Marketable Securities and Investment in Limited Partnership

The cost, gross unrealized gains, gross unrealized losses and fair market value for marketable securities by major security type at March 30, 2003 and March 31, 2002 are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
<b>2003:</b>				
Available for sale securities:				
Bonds	\$ 4,513	\$ 181	\$(71)	\$ 4,623
<b>2002:</b>				
Trading securities:				
Bonds	\$7,821	\$ —	\$(20)	\$7,801
Investment in limited partnership	1,020	—	(2)	1,018
	<b>\$8,841</b>	<b>\$ —</b>	<b>\$(22)</b>	<b>\$8,819</b>

Proceeds from the sale of available for sale and trading securities and the resulting gross realized gains and losses included in the determination of net income are as follows:

	2003	2002	2001
Available for sale securities:			
Proceeds	\$6,088	\$ —	\$ —
Gross realized gains	12	—	—
Gross realized losses	(2)	—	—
Trading securities:			
Proceeds	\$ 767	\$2,933	\$2,564
Gross realized gains	—	8	—
Gross realized losses	(252)	(1)	(2)

Effective April 1, 2002, the Company transferred the Company's bond portfolio formerly classified as trading securities to available for sale securities due to a change in the Company's investment strategies. As required by FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the transfer of these securities between categories of investments has been accounted for at fair value and the unrealized holding loss previously recorded before April 1, 2002 of \$20 from the trading category has not been reversed. The unrealized gain for the fiscal year ended March 30, 2003 totaling \$64 net of income taxes has been included as a component of comprehensive income. Investments classified as trading securities are recorded at fair value and the unrealized gains or losses are recognized as a component of investment and other income in the consolidated statement of operations. During the fiscal year ended March 30, 2003, the Company liquidated its investment in limited partnership and received proceeds of \$767 and recorded a loss of \$252 which is included as a component of investment and other income in the accompanying consolidated statement of operations for the fiscal year ended March 30, 2003.

## Note F—Property and Equipment, Net

Property and equipment consist of the following:

	March 30, 2003	March 31, 2002
Construction-in-progress	\$ 31	\$ 842
Land	1,665	1,665
Building and improvements	2,255	2,245
Machinery, equipment, furniture and fixtures	5,297	6,602
Leasehold improvements	4,042	7,201
	<b>13,290</b>	18,555
Less: accumulated depreciation and amortization	7,027	9,630
	<b>\$ 6,263</b>	\$ 8,925

Depreciation expense on property and equipment was \$1,907, \$1,661 and \$1,791 for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, respectively.

### 1. Sales of Restaurants

On April 1, 2002, the Company adopted the provisions of 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"). This statement 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 retained

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. SFAS No. 144 has broadened the definition of discontinued operations to include components of an entity whose cash flows are clearly identifiable as compared to a segment of a business. SFAS No. 144 requires the Company to classify as discontinued operations any restaurant that it sells, abandons or otherwise disposes of where the Company will have no further involvement in such restaurant's operations.

During the fiscal year ended March 30, 2003, the Company sold three Company-owned restaurants for a total of \$591,000. In August 2002, an operating restaurant, which had been classified as held for sale at March 31, 2002, was sold to a non-franchisee for \$75,000. In October 2002, a non-operating restaurant, which had been classified as held for sale was sold to a non-franchisee for \$466,000 and an operating restaurant was sold to a franchisee in exchange for a \$50,000 note. As these restaurants were either classified as held for sale prior to the adoption of SFAS No. 144 or the Company has a continuing stream of cash flows in the case of the franchised restaurant, the results of operations for the Company-operated restaurants that were sold are included as a component of continuing operations in the accompanying consolidated statements of operations for the fiscal year ended March 30, 2003. In December 2002, the Company abandoned the operations of one Company-owned restaurant pursuant to a lease termination agreement with the landlord. The results of operations for this restaurant have been classified as discontinued operations as the Company does not have any continuing involvement or a continuing stream of cash flows with this restaurant.

As discussed in Note F-2 below, during fiscal 2003, the Company also abandoned the operations of seven company-operated restaurants located within certain Home Depot Home Improvement Centers. Pursuant to SFAS No. 144, the results of operations for all seven of these restaurants have been presented as discontinued operations in the accompanying consolidated statement of operations, as the Company has no continuing involvement or cash flows relating to any of these restaurants.

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

In May 2001, the Company completed the sale of a restaurant property for approximately \$1,500 pursuant to an order of condemnation by the State of Florida. The fair value of the assets (which approximated the carrying value) was included in the current portion of assets available for sale at March 25, 2001. 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 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 as a component of "investment and other income" in the accompanying consolidated statement of operations.

## 2. Food Service License Termination Within Home Depot Stores

In August 2002, the Company received written notice from Home Depot U.S.A., Inc. ("Home Depot") that Home Depot terminated seven License Agreements with the Company pursuant to which the Company operated Nathan's restaurants in certain Home Depot Improvement Centers. In accordance with the termination notices, the Company ceased its operations in all seven Home Depot locations during the fiscal year ended March 30, 2003.

Pursuant to SFAS No. 144, the results of operations for all seven of these restaurants, have been presented as discontinued operations in the accompanying consolidated statement of operations as the Company has no continuing involvement or cash flows relating to any of these restaurants. The Company revised the estimated useful lives of these assets to reflect the shortened useful lives and recorded additional depreciation expense of approximately \$428 during the fiscal year ended March 30, 2003. Pursuant to the termination provisions of certain of the lease agreements with Home Depot, the Company received payments of \$184.

Following is a summary of the results of operations for these seven restaurants for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001:

	2003	2002	2001
Revenues	<b>\$3,096</b>	\$4,099	\$3,990
(Loss) income before income taxes <sup>(A)</sup>	<b>\$ (166)</b>	\$ 316	\$ 262

(A) (Loss) income before income taxes for the fiscal year ended March 30, 2003 includes additional depreciation expense of \$428, as a result of revising the estimated useful lives of these restaurants.

## 3. Discontinued Operations

As described in Notes F-1 and F-2 above, the Company has classified the results of eight restaurants as discontinued operations in accordance with SFAS No. 144. The following is a summary of the results of operations for these eight restaurants for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001:

	2003	2002	2001
Revenues	<b>\$3,543</b>	\$4,857	\$4,947
(Loss) income before income taxes <sup>(A)</sup>	<b>\$ (206)</b>	\$ (238)	\$ 35

(A) (Loss) income before income taxes for the fiscal year ended March 30, 2003 includes additional depreciation expense of \$428, as a result of revising the estimated useful lives of these restaurants.

At March 30, 2003, in accordance with SFAS No. 144, the Company has classified the net fixed assets of four restaurants as held for sale in the accompanying consolidated balance sheet.

## Note G—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 30, 2003	March 31, 2002
Payroll and other benefits	<b>\$1,324</b>	\$1,455
Professional and legal costs	<b>349</b>	407
Self-insured retention	<b>596</b>	1,346
Rent, occupancy and lease reserve termination costs	<b>739</b>	831
Taxes payable	<b>556</b>	595
Other	<b>1,378</b>	1,872
	<b>\$4,942</b>	\$6,506

### Lease Reserve Termination Costs

In connection with the Company's 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, "Business Combinations," the write-down of these assets was reflected as part of the purchase price allocation. To date, the Company has closed or sold 17 units. The Company continues to market the remaining property for sale. As of March 30, 2003, the Company has recorded charges to operations of approximately \$1,461 (\$877 after tax) for lease reserves and termination costs in connection with these properties.

### Note H—Notes Payable and Capitalized Lease Obligations

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

	March 30, 2003	March 31, 2002
Note payable to bank at 8.5% through January 2003, 4.5% from February 2003 through January 2006 and adjusting to prime plus 0.25% in February 2006 and 2009 and maturing in 2010	\$1,167	\$1,333
Note payable to bank at 8.75% and maturing in 2003	—	381
Capital lease obligations and other	59	65
	<u>1,226</u>	<u>1,779</u>
Less current portion	(173)	(559)
Long-term portion	<u>\$1,053</u>	<u>\$1,220</u>

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 was approximately \$297 as of March 30, 2003.

At March 30, 2003, the aggregate annual maturities of notes payable and capitalized lease obligations are as follows:

2004	\$ 173
2005	173
2006	174
2007	175
2008	175
Thereafter	356
	<u>\$1,226</u>

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, 2003, and bears interest at the prime rate (4.25% at March 30, 2003). There were no borrowings outstanding under this line of credit as of March 30, 2003.

### Note I—Other Expense (Income), Net

Included in other expense (income) in the accompanying consolidated statements of operations is (i) \$232 in lease reserves in connection with four vacant properties for the fiscal year ended March 30, 2003, (ii) the reversal of a previous litigation accrual of (\$210) for the fiscal year ended March 31, 2002 and (iii) \$463 in lease termination costs for the fiscal year ended March 25, 2001.

During the quarter ended June 24, 2001, the Company reversed an accrual of \$210 related to its successful appeal of a previous award in an action entitled: Miami Subs Corporation or MIAMI S V. MURRAY FAMILY TRUST/KENNETH DASH PARTNERSHIP. In this case, the court found that Miami Subs breached a fiduciary duty it owed to defendants and awarded the Murray Family Trust \$200. Both Miami Subs and defendants appealed the court's decision, and in November 1996, the appeal was argued before the Supreme Court of New Hampshire. In December 1997, the Supreme Court ruled in favor of Miami Subs, vacated the damage award, reversed the award of attorney fees and remanded to a trial court for a determination of damages for the alleged breach of fiduciary duty to the Murray Family Trust. In May 1998, the trial court awarded the Murray Family Trust compensatory damages in the amount of \$200, which Miami Subs accrued for on its books. Miami Subs appealed the damage award, and in December 1999, the Supreme Court of New Hampshire heard the second appeal. On February 1, 2001, the Supreme Court of New Hampshire ruled in favor of Miami Subs and vacated the damage award. The plaintiff had the right to further appeal the reversal for a period of 90 days, until May 2, 2001. No further action was taken by the plaintiff and upon passage of the 90-day period the litigation award was reversed into income.

### Note J—Income Taxes

Income tax provision (benefit) consists of the following for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001:

	2003	2002	2001
Federal			
Current	\$ —	\$ 985	\$ 865
Deferred	(281)	(93)	246
	<u>(281)</u>	<u>892</u>	<u>1,111</u>
State and local			
Current	46	181	224
Deferred	(48)	(16)	67
	<u>(2)</u>	<u>165</u>	<u>291</u>
	<u>\$ (283)</u>	<u>\$1,057</u>	<u>\$1,402</u>

Total income tax (benefit) provision for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001 differs 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:

	2003	2002	2001
Computed "expected" tax (benefit) expense	\$(609)	\$ 833	\$1,016
Nondeductible amortization	99	169	222
Impairment on nondeductible favorable lease intangible assets	87	—	—
State and local income taxes, net of Federal income tax benefit	140	106	199
Tax-exempt investment earnings	(48)	(68)	(30)
Nondeductible meals and entertainment and other	48	17	(5)
	<u>\$ (283)</u>	<u>\$1,057</u>	<u>\$1,402</u>

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 30, 2003	March 31, 2002
Deferred tax assets		
Accrued expenses	\$ 672	\$1,164
Allowance for doubtful accounts	167	291
Impairment of notes receivable	855	256
Deferred revenue	806	978
Depreciation expense and impairment of long-lived assets	1,152	1,101
Expenses not deductible until paid	238	130
Amortization of intangibles	407	105
Net operating loss and other carryforwards	1,540	676
Other	101	59
Total gross deferred tax assets	<b>5,938</b>	4,760
Deferred tax liabilities		
Amortization of intangibles	80	422
Unrealized gain on marketable securities and income on investment in limited partnership	46	207
Other	335	320
Total gross deferred tax liabilities	<b>461</b>	949
Net deferred tax asset	<b>5,477</b>	3,811
Less valuation allowance	<b>(751)</b>	(525)
	<b>\$4,726</b>	\$3,286

The determination that the net deferred tax asset of \$4,726 and \$3,286 at March 30, 2003 and March 31, 2002, respectively, is realizable is based on anticipated future taxable income.

At March 30, 2003, as result of settling the Miami Subs IRS audits for the years 1991 through 1996, the Company had a net operating loss carryforward ("NOL") 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 \$120 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 Sections 382 and 383 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 (See Note L-3). The valuation allowance also includes various state NOL's related to the post-acquisition losses of Miami Subs not utilized on a consolidated basis and carried forward on a state basis.

## Note K—Stockholder's 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 non-qualified 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 2001 Plan.

In June 2002, the Company adopted the Nathan's Famous, Inc. 2002 Stock Incentive Plan (the "2002 Plan"), which provides for the issuance of nonqualified stock options or restricted stock awards to directors, officers and key employees. Up to 300,000 shares of common stock have been reserved for issuance under the 2002 Plan.

The 1992 Plan expired with respect to the granting of new options on December 2, 2002. The 1998 Plan, the 2001 Plan, the 2002 Plan and the Directors' Plan expire on April 5, 2008, June 13, 2011, June 17, 2012 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 1993, the Company granted to its Chairman and Chief Executive Officer a warrant to purchase 150,000 shares of the Company's common stock at an exercise price of \$9.71 per share, representing 105% of the market price of the Company's common stock on the date of grant, which exercise price was reduced on January 26, 1996 to \$4.50 per share. The shares vested at a rate of 25% per annum commencing November 1994 and the warrant expires in November 2003.

On July 17, 1997, the Company granted to its Chairman and Chief Executive Officer a warrant to purchase 150,000 shares of the Company's common stock at an exercise price of \$3.50 per share, representing the market price of the Company's common stock on the date of grant. The shares vested at a rate of 25% per annum commencing July 17, 1998 and the warrant expires in July 2007.

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 30, 2003, March 31, 2002 and March 25, 2001 and changes during the fiscal years then ended is presented in the tables and narrative below:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding—beginning of year	1,821,146	\$4.29	1,514,209	\$3.86	1,614,924	\$ 4.79
Granted	40,000	3.96	307,000	3.20	—	—
Expired	(106,897)	7.32	(63)	6.20	(100,715)	10.60
Options outstanding—end of year	1,754,249	4.01	1,821,146	4.29	1,514,209	3.86
Options exercisable—end of year	1,502,124		1,367,479		1,220,876	
Weighted-average fair value of options granted		\$2.19		\$1.30		\$ —
Warrants outstanding—beginning of year	318,750	\$4.62	368,750	\$4.53	401,200	\$ 5.66
Expired	—		(50,000)	3.94	(32,450)	18.61
Warrants outstanding—end of year	318,750	4.62	318,750	4.62	368,750	4.53
Warrants exercisable—end of year	318,750		318,750		368,750	—
Weighted-average fair value of warrants granted		\$ —		\$ —		\$ —

At March 30, 2003, 413,500 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 30, 2003:

Range of Exercise Prices	Options and Warrants Outstanding			Options and Warrants Exercisable	
	Number Outstanding at 3/30/03	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 3/30/03	Weighted-Average Exercise Price
\$3.19 to \$ 4.00	1,499,558	5.8	\$ 3.36	1,247,433	\$ 3.37
4.01 to 6.60	507,691	1.7	5.18	507,691	5.18
6.61 to 22.25	65,750	1.4	14.99	65,750	14.99
\$3.19 to \$22.25	2,072,999	4.7	\$ 4.18	1,820,874	\$ 4.30

### 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 10,130,741 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. As part of the stock repurchase plan, 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. The Company completed its initial Stock Repurchase Plan at a cost of approximately \$3,670 during the fiscal year ended March 30, 2003. On October 7, 2002, the Board of Directors of the Company authorized the repurchase of up to 1,000,000 additional 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 30, 2003, 641,238 additional shares have been repurchased at a cost of approximately \$2,323.

#### 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 for the fiscal year immediately preceding the fiscal year termination, as well as a lump sum cash payment equal to the difference between the exercise price of any exercisable options having an exercise price of less than the current market price of the Company's common stock and such then current market price. In addition, the Company will provide the officer with a tax gross-up payment to cover any excise tax due.

The Company and its President and Chief Operating Officer entered into an employment agreement on December 28, 1992 for a period commencing on January 1, 1993 and ending on December 31, 1996. The employment agreement has been extended annually through December 31, 2002, based on the original terms, and no nonrenewal notice has been given as of May 23, 2003. 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. No non-renewal notice has been given as of May 23, 2003. 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. In the event a nonrenewal notice is delivered, the Company must pay the officer an amount equal to the employee's base salary as then in effect.

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 in July 2003 and for compensation of \$125 per year. In March 2003, the Company notified the executive that it did not intend to renew the employment agreement with the employee. 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 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 30, 2003, March 31, 2002 and March 25, 2001 were \$25, \$36 and \$25, 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 L—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 30, 2003, the Company has noncancelable operating lease commitments, net of certain sublease rental income, as follows:

	Lease Commitments	Sublease Income	Net Lease Commitments
2004	\$ 4,204	\$ 1,969	\$ 2,235
2005	4,110	1,928	2,182
2006	3,931	1,816	2,115
2007	3,753	1,682	2,071
2008	3,132	1,390	1,742
Thereafter	6,527	3,821	2,706
	<u>\$25,657</u>	<u>\$12,606</u>	<u>\$13,051</u>

Aggregate rental expense, net of sublease income, under all current leases amounted to \$2,340, \$2,734 and \$3,549 for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, respectively.

The Company also owns or leases sites, which it leases or subleases to franchisees, which expire on various dates through 2016 exclusive of renewal options. 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 \$2,179 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 \$88, \$129 and \$123 for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, respectively.

The Company guarantees certain equipment financing for franchisees with a third-party lender. The Company's maximum obligation, should the franchisees default on the required monthly payment to the third-party lender, for loans funded by the lender, as of March 30, 2003, was approximately \$707. The equipment financing expires at various dates through fiscal 2008.

The Company also guarantees a franchisee's note payable with a bank. The note payable matures in fiscal 2007. The Company's maximum obligation, should the franchisee default on the required monthly payments to the bank, for loans funded by the lender, as of March 30, 2003, was approximately \$297.

### 2. Contingencies

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.

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, sought damages in the amount of \$17 million against Nathan's Famous 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 court approval. The court approved the original settlement and on September 9, 2002, the plaintiffs were paid \$659 of which \$650 had been accrued as of March 31, 2002.

Nathan's Famous was served on January 10, 2003 with a summons in connection with an action commenced by Mitchell Putterman and Michael Pellegrino in the Supreme Court of New York, Suffolk County seeking damages of \$1,000 for claims of breach of contract and fraud in connection with a letter of intent with the Company's subsidiary, NF Roasters of Commack, Inc. Although the letter of intent contains specific disclaimer language stating that it did not convey any rights or obligations and contemplated the execution of a management agreement, which was never executed, plaintiffs purport nonetheless to have certain claims in connection therewith. The Company had served a notice of appearance and demand for a complaint. On March 31, 2003, this action was dismissed without prejudice by stipulation.

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 \$5,900 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 30, 2003, the remaining net operating loss carryforward is \$1,289 and the remaining general business credit is \$120. These losses and credits are subject to limitations imposed under the Internal Revenue Code pursuant to Sections 382 and 383 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. The valuation allowance also includes various state NOLs related to the post-acquisition losses of Miami Subs not utilized on a consolidated basis and carried forward on a state basis.



## Note M—Related Party Transactions

As of March 30, 2003, 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 30, 2003 under these existing leases was approximately \$1,074. Rent expense under these two leases amounted to \$198, \$182 and \$181 for the fiscal years ended March 30, 2003, March 31, 2002 and March 25, 2001, respectively.

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, Inc. common stock. These options were converted into options of the entity that sold Arthur Treacher's, Inc.

## Note N—Significant Fourth Quarter Adjustments

During the fourth quarter of fiscal 2003, the Company's management continued to monitor and evaluate the collectibility and potential impairment of its assets, in particular, notes receivable, certain fixed assets and certain intangible assets. In connection therewith, impairment charges on certain notes receivable of \$883 and impairment charges on fixed assets of \$896 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 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.

## Note O—Quarterly Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal Year 2003</b>				
Total revenues <sup>(a)</sup>	\$ 9,666	\$ 9,565	\$ 7,536	\$ 7,163
Gross profit <sup>(a), (b)</sup>	2,397	2,665	1,674	1,434
Net (loss) income	(11,992)	110	(106)	(1,980)
Per share information				
Net (loss) income per share				
Basic <sup>(a)</sup>	\$ (1.89)	\$ .02	\$ (.02)	\$ (.36)
Diluted <sup>(a)</sup>	\$ (1.89)	\$ .02	\$ (.02)	\$ (.36)
Shares used in computation of net (loss) income per share				
Basic <sup>(a)</sup>	6,354,000	6,105,000	5,878,000	5,568,000
Diluted <sup>(a)</sup>	6,354,000	6,229,000	5,878,000	5,568,000
<b>Fiscal Year 2002</b>				
Total revenues <sup>(a)</sup>	\$10,558	\$10,591	\$9,184	\$9,209
Gross profit <sup>(a), (b)</sup>	2,514	2,820	1,960	1,862
Net income (loss)	962	654	263	(630)
Per share information				
Net income (loss) per share				
Basic <sup>(a)</sup>	\$ .14	\$ .09	\$ .04	\$ (.09)
Diluted <sup>(a)</sup>	\$ .14	\$ .09	\$ .04	\$ (.09)
Shares used in computation of net (loss) income per share				
Basic <sup>(a)</sup>	7,065,000	7,065,000	7,038,000	7,024,000
Diluted <sup>(a)</sup>	7,084,000	7,080,000	7,062,000	7,024,000

(a) Quarterly results have been adjusted to reflect the results of operations of restaurants that are classified as discontinued operations at March 30, 2003 as discontinued operations for all periods presented.

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

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

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Nathan's Famous, Inc. (a Delaware Corporation) and subsidiaries (the "Company") as of March 30, 2003 and March 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the fifty-two weeks ended March 30, 2003 and the fifty-three weeks ended March 31, 2002. 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. The financial statements of the Company for the fifty-two weeks ended March 25, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated June 14, 2001.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nathan's Famous, Inc. and subsidiaries as of March 30, 2003 and March 31, 2002, and the results of their operations and their cash flows for the fifty-two weeks ended March 30, 2003 and the fifty-three weeks ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As described in Notes B and F to the consolidated financial statements, the Company adopted Statements of Financial Accounting Standards Nos. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") and 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144") on April 1, 2002.

As described above, the financial statements of the Company for the fifty-two weeks ended March 25, 2001, were audited by other auditors who have ceased operations. As described in Notes B and F, these financial statements have been revised to include the transitional disclosures required by SFAS No. 142 and the reclassification and disclosures of discontinued operations required by SFAS No. 144. Our audit procedures with respect to the disclosures in Note B with respect to 2001 included agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including related tax effects) recognized in that period related to goodwill and intangible assets that are no longer amortized, as a result of initially applying SFAS No. 142, to the Company's underlying records obtained from management. We also tested the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts. Our audit procedures with respect to the reclassification of the financial statement and the disclosures in Note F with respect to 2001 included agreeing the amounts reclassified to discontinued operations to the Company's underlying records obtained from management and testing the mathematical accuracy of the revision in income from continuing operations and discontinued operations and the related earnings-per-share amounts. In our opinion, the reclassification and disclosures for the fifty-two weeks ended March 25, 2001 contained in the financial statement and Notes B and F are appropriate and have been appropriately applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such reclassification and disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

*Grant Thornton LLP*

Melville, New York  
May 23, 2003

**The below report of Arthur Andersen LLP ("Andersen") is a copy of the previously issued report of Andersen and the report has not been reissued by Andersen.**

**Note that this previously issued Andersen report contains references to certain fiscal years and periods, which are not required to be presented in the accompanying financial statements as of and for the three fiscal years ended March 30, 2003. As discussed in Notes B and F, the Company has revised its financial statements for the fifty-two weeks ended March 25, 2001 to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" and the reclassification of discontinued operations and net assets held for sale required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Andersen report does not extend to these changes. The revisions to the 2001 financial statements related to these transitional disclosures and reclassifications were reported on by Grant Thornton LLP, as stated in their report appearing herein.**

## 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

# CORPORATE DIRECTORY

*Nathan's Famous, Inc. & Subsidiaries*

## 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 P. Schedler

*Vice President—Development, Architecture & Construction*

## Independent Auditors

Grant Thornton LLP

445 Broadhollow Road, Melville, New York 11747

## Corporate Counsel

Kramer, Coleman, 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](http://www.nathansfamous.com)

## 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
<b>Fiscal year ended March 30, 2003</b>		
First quarter	<b>\$4.31</b>	<b>\$3.35</b>
Second quarter	<b>4.00</b>	<b>3.07</b>
Third quarter	<b>3.82</b>	<b>3.04</b>
Fourth quarter	<b>3.70</b>	<b>3.50</b>
<b>Fiscal year ended March 31, 2002</b>		
First quarter	3.50	2.87
Second quarter	3.55	3.10
Third quarter	3.60	3.07
Fourth quarter	3.62	3.21

At June 6, 2003, the closing price per share for our common stock, as reported by Nasdaq, was \$3.63.

### Dividend Policy

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

### Shareholders

As of June 6, 2003, we had 822 shareholders of record, excluding shareholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers.

### Annual Shareholders' Meeting

The Annual Meeting of Shareholders of the Company will be held at 10:00 a.m., EST on Friday, September 12, 2003 in the Conference Room on the lower level of 1400 Old Country Road, Westbury, New York.



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

[www.nathansfamous.com](http://www.nathansfamous.com)