

Nathan's
SINCE 1916
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SINCE 1916
FAMOUS

More Than Just the
Best Hot Dog!



FINANCIAL HIGHLIGHTS

Fiscal Year⁽¹⁾*(in thousands, except per share amounts)***Selected Consolidated Financial Data:**

	2008	2007	2006	2005
Revenues from continuing operations	\$47,395	\$42,969	\$38,285	\$30,912
Income from continuing operations ⁽²⁾	\$ 4,849	\$ 4,341	\$ 2,884	\$ 1,788
Income from discontinued operations ^{(2), (3)}	\$ 1,706	\$ 1,202	\$ 2,793	\$ 949
Net income ⁽³⁾	\$ 6,555	\$ 5,543	\$ 5,677	\$ 2,737
Basic income per share				
Income from continuing operations ⁽²⁾	\$ 0.80	\$ 0.74	\$ 0.52	\$ 0.34
Income from discontinued operations ^{(2), (3)}	\$ 0.28	\$ 0.21	\$ 0.50	\$ 0.18
Net income per share ⁽³⁾	\$ 1.08	\$ 0.95	\$ 1.02	\$ 0.52
Diluted income per share ^{(2), (3)}				
Income from continuing operations ⁽²⁾	\$ 0.75	\$ 0.68	\$ 0.44	\$ 0.29
Income from discontinued operations ^{(2), (3)}	\$ 0.26	\$ 0.19	\$ 0.43	\$ 0.16
Net income per share ⁽³⁾	\$ 1.01	\$ 0.87	\$ 0.87	\$ 0.45
Weighted average shares used in computing income per share				
Basic	6,085	5,836	5,584	5,307
Diluted	6,502	6,341	6,546	6,080
Total assets	\$51,202	\$46,575	\$37,423	\$31,269
Stockholders' equity	\$42,608	\$35,879	\$28,048	\$21,356

(1) Our fiscal year ends on the last Sunday in March which results in a 52- or 53-week year. Fiscal year 2008 consisted of 53 weeks. Fiscal years 2007, 2006 and 2005 were 52-week years.

(2) Results have been adjusted to reflect the sale of Miami Subs Corporation, including a leasehold interest in May 2007, the sale of vacant land and an adjacent leasehold interest during the fiscal years ended March 25, 2007 and March 26, 2006, and the closure of one restaurant during the fiscal year ended March 27, 2005 for the reclassification of the operating results of these three properties to discontinued operations.

(3) The fiscal year ended March 30, 2008, includes gains of \$2,489, before income taxes, from the sale of Miami Subs Corporation, including a leasehold interest in May 2007. The fiscal year ended March 25, 2007 and March 26, 2006, includes gains of \$400 and \$2,919, respectively, before income taxes, from the sale of a vacant piece of land in Coney Island, NY and an adjacent leasehold interest.

Corporate 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 restaurant system and throughout a broad spectrum of other food-service and retail environments. Our Programs provide for the sale of Nathan's world famous hot dogs and crinkle-cut French fries to food-service locations nationwide. Nathan's products are also featured in supermarkets and club stores throughout the United States and are being marketed on television by QVC. In total, Nathan's products are marketed for sale in over 35,000 locations.

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

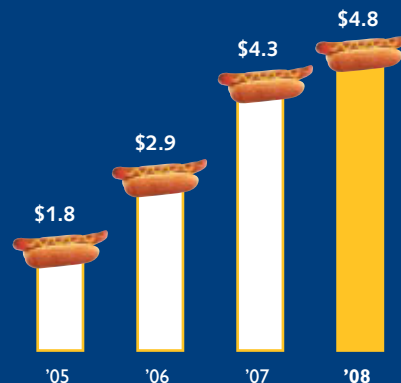
Revenues from Continuing Operations

(\$ in millions)



Income from Continuing Operations

(\$ in millions)



Stockholders' Equity

(\$ in millions)



SHAREHOLDER'S LETTER

Fiscal 2008 was another successful and exciting year for Nathan's Famous.

We achieved our fifth consecutive year of increased profits from continuing operations and, once again, experienced year-over-year revenue increases in all four of our major profit centers: franchised restaurant operations, company-owned restaurants, the branded products program and retail licensing.

Strategically, we continued to successfully implement our brand marketing and points-of-distribution strategy. Today, Nathan's Famous is much more than just a quick service restaurant concept. We are engaged in the business of marketing a powerful and unique brand to sell a variety of products throughout varied channels of distribution. As a result of our efforts, at year's end, Nathan's Famous products were marketed for sale at over 35,000 retail and food service locations.

From a marketing perspective, many of our efforts have proven successful, but none more so than the annual Nathan's Famous July 4th International Hot Dog Eating Contest. The contest has become a truly singular event, forming the centerpiece of our marketing efforts and providing global visibility for the Nathan's Famous brand. This past year, we were joined by more than 30,000 spectators in Coney Island, as well as millions more tuning in to watch live on ESPN. The event culminated with a new World Record (66 Nathan's Famous hot dogs in 12 minutes!) and the return of the coveted Mustard Yellow Belt to American soil as Joey Chestnut dethroned the great, 5-time defending champion Takeru Kobayashi. We look forward to continuing this rite of summer well into the future.



Eric Gatoff



Wayne Norbitz

Although never complacent due to past accomplishments, we were pleased with our overall results this year and were thrilled to be included by Forbes on its Forbes 200 Up and Comers List of the best small businesses in America for 2007.

Financial Results:

For fiscal 2008, earnings from continuing operations increased by \$508,000 or 11.7% to \$4,849,000. Total revenue from continuing operations increased by \$4,426,000 or 10.3% to \$47,395,000. Net income increased by \$1,012,000 or 18.3% to \$6,555,000, and earnings per share increased \$0.14, or 16.1%, to \$1.01 per diluted share.

Restaurant Operations:

Revenues derived from our system of franchised and licensed restaurant units increased by \$544,000 or 11.9% during fiscal 2008. During the year, we opened forty-six new Nathan's Famous franchised units, including forty-one domestically, four in Kuwait and one in the Dominican Republic.

Growth in fiscal 2008 included the initial rollout of our Frank & Fry program, which involves the franchising of a new, streamlined Nathan's Famous prototype featuring our signature, world-famous hot dogs and French fries. We believe the structure of the program (reduced initial fee, no royalties and limited space and capital requirements) makes it very attractive to many operators in different segments of the food service industry, and in our first full year operating the program, we successfully opened twenty-eight units.

In our company-owned restaurants, which were comprised of six restaurants (including one seasonal location in Coney Island), sales increased by \$1,279,000 or 10.8%.

SHAREHOLDER'S LETTER

The Branded Products Program:

Sales in the branded products program, which features the sale of Nathan's Famous hot dogs to the food service industry, increased by \$1,873,000 or 10% during fiscal 2008.

Pursuant to our branded products program, Nathan's Famous hot dogs are sold in over twelve hundred Subway sandwich shops located inside Wal-Marts, in more than seven hundred K-Marts and Sears Grand retail locations, in about seven hundred and fifty Auntie Anne's pretzel outlets, and in approximately five hundred and seventy Sam's Club stores. Our hot dogs are now available for sale by many of the largest U.S. food service distributors and may be found in many movie theaters, convenience stores, amusement venues and sports stadiums, including Yankee Stadium and Shea Stadium.

Retail Licensing:

During fiscal 2008, license royalties increased by \$513,000 or 12.1%. Leveraging our highly-visible and valued Nathan's Famous brand at retail continues to provide increased sales and profits. Today, a sample of the most popular products sold include a wide variety of Nathan's Famous hot dogs, as well as Nathan's Famous French fries, mustards, pickles, potato pancakes, onion rings, potato chips, franks 'n blankets, mini bagel dogs, beef sticks, gummy dogs, and pet-food treats.



ERIC GATOFF
Chief Executive Officer

Strategic Developments:

As mentioned above, we have continued to implement our brand marketing and points-of-distribution strategy. As a result, the prominence of the Nathan's Famous brand and the presentation of Nathan's Famous products are greater today than ever before. We intend to devote our energies and resources to the continuation of this successful strategy. Consistent with this outlook, we announced the sale of our Miami Subs Corporation subsidiary on June 8, 2007, which resulted in a pre-tax gain during fiscal 2008 of \$2,489,000 (including a gain relating to the sale of a certain Miami Subs-related leasehold interest). Additionally, we announced the sale of our NF Roasters Corp. subsidiary on April 23, 2008.

In Conclusion:

Our focused strategies, creative approaches, and ever-expanding opportunities are expected to afford us with the ability to continue to expose the Nathan's Famous brand and advance the sale of Nathan's Famous products through a broad variety of environments and distribution channels. As we seek to continue to expand and pursue profitable, new opportunities, we will retain our steadfast commitment to quality and endeavor to serve our shareholders responsibly. We remain extremely appreciative of your continued support.



WAYNE NORBITZ
President and Chief Operating Officer

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except per share amounts)

	Fiscal Years Ended ⁽¹⁾				
	March 30, 2008	March 25, 2007 ⁽²⁾	March 26, 2006 ⁽²⁾	March 27, 2005 ⁽²⁾	March 28, 2004 ⁽²⁾
STATEMENT OF EARNINGS DATA:					
Revenues:					
Sales	\$36,259	\$33,425	\$29,785	\$23,296	\$18,714
Franchise fees and royalties	5,132	4,588	4,407	3,918	3,618
License royalties, interest and other income	6,004	4,956	4,093	3,698	3,412
Total revenues	47,395	42,969	38,285	30,912	25,744
Costs and Expenses:					
Cost of sales	27,070	24,080	22,225	17,266	13,366
Restaurant operating expenses	3,265	3,194	3,180	3,063	3,025
Depreciation and amortization	763	741	759	854	815
Amortization of intangible assets	34	34	34	35	33
General and administrative expenses	8,942	8,228	7,538	7,115	6,141
Interest expense	—	—	—	2	13
Total costs and expenses	40,074	36,277	33,736	28,335	23,393
Income from discontinued operations before provision for income taxes	7,321	6,692	4,549	2,577	2,351
Income tax expense	2,472	2,351	1,665	789	798
Income from continuing operations	4,849	4,341	2,884	1,788	1,553
Discontinued Operations:					
Income from discontinued operations before provision for income taxes ⁽³⁾	2,711	1,990	4,589	1,635	643
Provision for income taxes	1,005	788	1,796	686	302
Income from discontinued operations	1,706	1,202	2,793	949	341
Net income	\$ 6,555	\$ 5,543	\$ 5,677	\$ 2,737	\$ 1,894
Basic Income Per Share:					
Income from continuing operations	\$ 0.80	\$ 0.74	\$ 0.52	\$ 0.34	\$ 0.29
Income from discontinued operations	0.28	0.21	0.50	0.18	0.07
Net income	\$ 1.08	\$ 0.95	\$ 1.02	\$ 0.52	\$ 0.36
Diluted Income Per Share:					
Income from continuing operations	\$ 0.75	\$ 0.68	\$ 0.44	\$ 0.29	\$ 0.27
Income from discontinued operations	0.26	0.19	0.43	0.16	0.06
Net income	\$ 1.01	\$ 0.87	\$ 0.87	\$ 0.45	\$ 0.33
Dividends	—	—	—	—	—
Weighted average shares used in computing net income per share					
Basic	6,085	5,836	5,584	5,307	5,306
Diluted	6,502	6,341	6,546	6,080	5,678

(continued)

SELECTED CONSOLIDATED FINANCIAL DATA *(continued)*

(in thousands, except per share amounts)

	Fiscal Years Ended ⁽¹⁾				
	March 30, 2008	March 25, 2007 ⁽²⁾	March 26, 2006 ⁽²⁾	March 27, 2005 ⁽²⁾	March 28, 2004 ⁽²⁾
BALANCE SHEET DATA AT END OF FISCAL YEAR:					
Working capital	\$35,650	\$27,375	\$19,075	\$14,009	\$ 9,185
Total assets	51,202	46,575	37,423	31,269	27,584
Long-term debt, net of current maturities	—	—	31	692	866
Stockholders' equity	\$42,608	\$35,879	\$28,048	\$21,356	\$17,352
SELECTED RESTAURANT OPERATING DATA:					
Company-owned Restaurant Sales ⁽⁴⁾	\$13,142	\$11,863	\$11,419	\$11,538	\$12,780
NUMBER OF UNITS OPEN AT END OF FISCAL YEAR:					
Company-owned Nathan's restaurants	6	6	6	6	7
Franchised ⁽⁵⁾	322	292	290	271	247
Franchised Nathan's Brand only	224	193	192	174	147

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. The fiscal year ended March 30, 2008 is on the basis of a 53-week reporting period whereas March 25, 2007, March 26, 2006, March 27, 2005, and March 28, 2004, are on the basis of 52-week reporting period.
- (2) Results have been adjusted to reflect the sale of Miami Subs Corporation, including leasehold interest in May 2007, the sale of vacant land and an adjacent leasehold interest during the fiscal years ended March 25, 2007 and March 26, 2006, and the closure of one restaurant during the fiscal year ended March 27, 2005 for the reclassification of the operating results of these three properties to discontinued operations.
- (3) The fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, include gains of \$2,489, \$400 and \$2,917 respectively, from the sale of Miami Subs Corporation in May 2007 and the sale of a vacant piece of land in Coney Island, NY, including an adjacent leasehold interest.
- (4) Company-owned restaurant sales represent sales from restaurants presented within continuing operations and discontinued operations.
- (5) Represents the Nathan's and Kenny Rogers restaurant systems.

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

Introduction

We are engaged primarily in the marketing of the "Nathan's Famous" brand and the sale of products bearing the "Nathan's Famous" trademarks through several different channels of distribution. Historically, our business has been the operation and franchising of quick service restaurant units featuring Nathan's Famous brand all beef frankfurters, crinkle-cut French-fried potatoes, and a variety of other menu offerings. Our Nathan's brand Company-owned and franchised units operate under the name "Nathan's Famous," the name first used at our original Coney Island restaurant opened in 1916. Nathan's licensing program began in 1978 by selling packaged hot dogs and other meat products to retail customers through supermarkets or grocery-type retailers for off-site consumption. During fiscal 1998, we introduced our Branded Product Program, which enables foodservice retailers to sell some of Nathan's proprietary products outside of the realm of a traditional franchise relationship. In conjunction with this program, foodservice operators are granted a limited use of the Nathan's Famous trademark with respect to the sale of hot dogs and certain other proprietary food items and paper goods.

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, which also provided us with co-branding rights to the Arthur Treachers brand in the United States. On February 28, 2006, we acquired all of the intellectual property rights, including, but not limited to, trademarks, trade names, and recipes, of the Arthur Treachers Fish N Chips Brand. On June 7, 2007, Nathan's completed the sale of its wholly-owned subsidiary, Miami Subs Corporation, the franchisor of the Miami Subs brand effective as of May 31, 2007. On April 23, 2008, Nathan's completed the sale of its wholly-owned subsidiary, NF Roasters Corp., franchisor of the Kenny Rogers brand. Notwithstanding the sale of Miami Subs Corporation and NF Roasters Corp., we are entitled to continue using the Kenny Rogers trademarks and service marks in our existing Nathan's restaurant locations.

Our revenues are generated primarily from selling products under Nathan's Branded Product Program, operating Company-owned restaurants, franchising the Nathan's and Kenny Rogers restaurant concepts and licensing agreements for the sale of Nathan's products within supermarkets and club stores and for the manufacturing of certain proprietary spices and also for the sale of Nathan's products directly to other foodservice operators.

In addition to plans for expansion through franchising, licensing and our Branded Product Program, Nathan's continues to co-brand within its existing restaurant system. At March 30, 2008, the Arthur Treacher's brand was being sold within 57 Nathan's restaurants and the Kenny Rogers Roasters brand was being sold within 56 Nathan's restaurants.

At March 28, 2004, Nathan's owned seven Company-operated restaurants. During the fiscal year ended March 27, 2005, Nathan's closed one Company-operated restaurant due to its lease expiration. The remaining six restaurants are presented as continuing operations in the accompanying financial statements.

At March 30, 2008, our franchise system consisted of 224 Nathan's Famous franchised units and 98 Kenny Rogers Roasters franchised units located in 22 states and 11 foreign countries. We also operated six Company-owned Nathan's units, including one seasonal location, within the New York metropolitan area.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the notes to our consolidated financial statements contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities. We believe the following critical accounting policies involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts.

Revenue Recognition

Sales by Company-owned restaurants, which are typically paid in cash by the customer, are recognized upon the performance of services.

In connection with its franchising operations, Nathan's receives initial franchise fees, development fees, royalties, and in certain cases, revenue from sub-leasing 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, which are non-refundable, 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 Nathan's 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.
- Provision of management training for the new franchisee and selected staff.
- Assistance with the initial operations and marketing of restaurants being developed.

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

(continued)

Development fees are non-refundable and the related agreements require the franchisee to open a specified number of restaurants in the development area within a specified time period or Nathan's may cancel the agreements. 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.

Nathan's recognizes franchise royalties, which are generally based upon a percentage of sales made by Nathan's franchisees 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, or until collectibility is deemed to be reasonably assured. The number of non-performing units is determined by analyzing the number of months that royalties have been paid during a period. When royalties have been paid for less than the majority of the time frame reported, such location is deemed non-performing. Accordingly, the number of non-performing units may differ between the quarterly results and year to date results.

Nathan's recognizes revenue from the Branded Product Program when it is determined that the products have been delivered via third party common carrier to Nathans' customers. Rebates to customers are recorded as a reduction to sales. Nathan's recognizes revenue from its Frank and Fry Program for the sale of hot dogs in the same way as for its Branded Product Program, described below, and royalty income when it has been determined that other qualifying products have been sold by the manufacturer to Nathan's limited-menu franchisees.

Revenue from sub-leasing properties is recognized as income as the revenue is earned and becomes receivable and deemed collectible. Sub-lease rental income is presented net of associated lease costs in the consolidated statements of earnings.

Nathan's recognizes revenue from royalties on the licensing of the use of its name on certain products produced and sold by outside vendors. The use of Nathan's name and symbols must be approved by Nathan's prior to each specific application to ensure proper quality and project a consistent image. Revenue from license royalties is recognized when it is earned and deemed collectible.

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. 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 at the date of the transaction is doubtful, the associated revenue is not recorded until the facts and circumstances change in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." The Company writes-off accounts receivable when they are deemed uncollectible.

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 not to be amortized but tested annually (or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable) 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, impairment charges may be required in the future. We conducted our annual impairment tests and no goodwill or other intangible assets were determined to be impaired during the fifty-three week period ended March 25, 2008, and the fifty-two week periods ended March 25, 2007 and March 26, 2006.

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 to make judgments regarding the future operating and disposition plans for underperforming assets, and estimates of expected realizable values for assets to be sold. 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. During the fifty-three week period ended March 30, 2008, and the fifty-two week periods ended March 25, 2007 and March 26, 2006, no impairment charges on long-lived assets were recorded.

Impairment of Notes Receivable

Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan," as amended, requires management judgments regarding the future collectibility of notes receivable and the underlying fair market value of collateral. We consider the following factors when evaluating a note for impairment: 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; and/or c) whether the collateral is susceptible to deterioration in realizable value. When determining possible impairment, we also expect to assess our future intention to enter into a new lease or extend the lease beyond the minimum lease term and the debtor's ability to meet its obligation over the projected term. During the fifty-three week period ended March 30, 2008, and the fifty-two week periods ended March 25, 2007 and March 26, 2006, no impairment charges on notes receivable were recorded.

Stock-Based Compensation

As discussed in Note B of Notes to Consolidated Financial Statements, we have various share-based compensation plans that provide stock options and restricted awards for certain employees and non-employee directors to acquire shares of our common stock. Prior to our adoption of SFAS 123R at the beginning of fiscal 2007, we accounted for share-based compensation in accordance with APB 25, which utilizes the intrinsic value method of accounting, as opposed to using the fair-value method prescribed in SFAS 123R. During fiscal years ended March 30, 2008 and March 25, 2007, we recorded share-based compensation expense of \$432,000 and \$367,000, respectively. (See Note B for a discussion of assumptions used to determine the fair value of share-based compensation.)

Income Taxes

The Company's current provision for income taxes is based upon its estimated taxable income in each of the jurisdictions in which it operates, after considering the impact on our taxable income of temporary differences resulting from different treatment of items such as depreciation, estimated self-insurance liabilities, allowance for doubtful accounts and tax credits and net operating losses ("NOL") for tax and reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

Uncertain Tax Positions

The Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN No. 48") which was adopted by the Company on March 26, 2007. FIN No. 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN No. 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements. (See Note K.)

Adoption of New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"), which clarified the accounting and disclosures for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 also provided guidance on the de-recognition of uncertain tax positions, financial statement classification, accounting for interest and penalties, accounting for interim periods and added new disclosure requirements.

Nathan's adopted the provisions of FIN No. 48, as amended, on March 26, 2007 which resulted in a \$155,000 adjustment to increase tax liabilities and decrease opening retained earnings in connection with a cumulative effect of a change in accounting principle. Nathan's recognizes accrued interest and penalties associated with unrecognized tax benefits as part of the income tax provision. (Refer to Note K to the Consolidated Financial Statements.)

As of the beginning of fiscal year ended March 25, 2007, Nathan's adopted SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") using the modified prospective method. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") and supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). SFAS No. 123R requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values measured at the grant date, or the date of later modification, over the requisite service period. In addition, under the modified prospective approach, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in pro forma footnote disclosures) related to awards vesting after the date of initial adoption to be recognized by the Company in the financial statements over the remaining requisite service period. Therefore, the amount of compensation costs to be recognized over the requisite service period on a prospective basis after March 26, 2006 includes: (i) previously unrecognized compensation cost for all share-based payments granted prior to, but not yet vested as of, March 26, 2006 based on their fair values measured at the grant date, (ii) compensation cost of all share-based payments granted subsequent to March 26, 2006 based on their respective grant date fair value, and (iii) the incremental fair value of awards modified subsequent to March 26, 2006 measured as of the date of such modification.

In November 2005, the FASB issued Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." FAS 123R-3 provides that companies may elect to use a specified alternative method to calculate the historical APIC Pool of excess tax benefits available to absorb tax deficiencies recognized upon adoption of SFAS No. 123R.

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

(continued)

Share-based compensation recognized pursuant to the adoption of SFAS 123R during the fiscal years ended March 30, 2008 and March 25, 2007 was \$359,000 and \$295,000, respectively, is included in general and administrative expense in the accompanying Consolidated Statements of Earnings. As of March 30, 2008, there was \$1,324,000 of unamortized compensation expense related to stock options. The Company expects to recognize this expense over approximately three years, eight months, which represents the weighted average remaining requisite service periods for such awards.

New Accounting Pronouncements Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157"), to eliminate the diversity in practice that exists due to the different definitions of fair value. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. SFAS No. 157 states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. As such, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, which is the first quarter of fiscal 2009, except for, with respect to certain non-financial assets and liabilities, for which the effective date will be our first quarter of fiscal 2010. The Company has not yet evaluated the impact of the adoption of SFAS No. 157 on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115," ("SFAS No. 159"). This standard amends SFAS No. 115, "Accounting for Certain Investment in Debt and Equity Securities," with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted for as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, which is the first quarter of fiscal 2009. The adoption will not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The requirements of SFAS No. 141R are effective for fiscal years beginning on or after December 15, 2008, which for us is fiscal 2010. Earlier adoption is prohibited. The Company has not yet evaluated the impact of SFAS No. 141R on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which for us is the first quarter of fiscal 2010. Earlier adoption is prohibited. The Company has not yet evaluated the impact of SFAS No. 160 on its consolidated financial position and results of operations.

Results of Operations

Fiscal Year Ended March 30, 2008 Compared to Fiscal Year Ended March 25, 2007

Revenues from Continuing Operations

Total sales increased by \$2,834,000 or 8.5% to \$36,259,000 for the fifty-three weeks ended March 30, 2008 ("fiscal 2008 period") as compared to \$33,425,000 for the fifty-two weeks ended March 25, 2007 ("fiscal 2007 period"). We estimate that sales which arose during the additional week included in the fiscal 2008 period were approximately \$528,000. Sales from the Branded Product Program increased by 10.0% to \$20,647,000 for the fiscal 2008 period as compared to sales of \$18,774,000 in the fiscal 2007 period. This increase was primarily attributable to increased sales volume of 8.3%. During the fiscal 2008 period, approximately 1,200 new accounts were opened. Total Company-owned restaurant sales (representing five comparable Nathan's restaurants and one seasonal restaurant) increased by 10.8% to \$13,142,000 as compared to

\$11,863,000 during the fiscal 2007 period. During the fiscal 2008 period, we experienced very favorable weather conditions during the summer season that had a positive impact on sales at our Coney Island locations. However, during December 2007, the unfavorable weather conditions in the Northeast had a negative impact on sales at our Company-owned locations as compared to December 2006. Nevertheless, the overall weather conditions during the fiscal 2008 period had a positive impact on the sales of our Company-owned restaurants. During the fiscal 2008 period, sales to our television retailer were approximately \$318,000 lower than the fiscal 2007 period. Our television retailer reduced its number of special food airings during the fiscal 2008 period. As a result, Nathan's did not run a "Today's Special Value" which ran during the first quarter fiscal 2007. Nathan's products were on air 55 times during the fiscal 2008 period as compared to 59 times during the fiscal 2007 period, which included eight "Today's Special Value" airings.

Franchise fees and royalties increased by \$544,000 or 11.9% to \$5,132,000 in the fiscal 2008 period compared to \$4,588,000 in the fiscal 2007 period. Franchise royalties were \$4,161,000 in the fiscal 2008 period as compared to \$3,966,000 in the fiscal 2007 period. Franchise restaurant sales increased by \$2,939,000 to \$97,487,000 in the fiscal 2008 period as compared to \$94,548,000 in the fiscal 2007 period. Comparable domestic franchise sales (consisting of 137 Nathan's restaurants) increased by \$3,223,000 or 4.2% to \$79,537,000 in the fiscal 2008 period as compared to \$76,314,000 in the fiscal 2007 period. During December 2007, the unfavorable weather conditions in the Northeast had a negative impact on sales at a number of franchised locations as compared to December 2006. Based upon the overall comparable restaurant sales increase during the fiscal 2008 period, we believe that weather conditions had a positive impact on franchised restaurant sales. During the fiscal 2008 period, Nathan's earned \$56,000 of distributor royalties from sales to our Frank and Fry franchisees as compared to \$17,000 during the fiscal 2007 period. From June 1, 2007 through the end of the fiscal 2008 period, we earned monthly royalties totaling \$60,000 from the sale of our products within the Miami Subs restaurant system. During the fiscal 2008 period, we also recorded reserves of \$19,000 for royalties deemed to be uncollectible as compared to the fiscal 2007 period, when we recognized \$36,000 of royalty income that was previously deemed to be uncollectible. At March 30, 2008, 322 domestic and international franchised or limited-menu licensed units were operating as compared to 292 domestic and international franchised or licensed units at March 25, 2007. Royalty income from two domestic franchised locations was deemed unrealizable during the fifty-three weeks ended March 30, 2008. No domestic franchised locations were deemed non-performing during the fifty-two weeks ended March 25, 2007. Domestic franchise fee income was \$586,000 in the fiscal 2008 period as compared to \$331,000 in the fiscal 2007 period. International franchise fee income was \$300,000 in the fiscal 2008 period, as compared to \$291,000 during the fiscal 2007 period. During the fiscal 2008 period, 46 new franchised units

opened, including 28 limited-menu licensed units, four units in Kuwait and one unit in the Dominican Republic. During the fiscal 2007 period, 21 new franchised units were opened including two test Frank and Fry units, four units in Kuwait, and one unit in the Dominican Republic and Japan. We also recognized \$85,000 in connection with a forfeited franchise agreement and a development agreement during the fiscal 2008 period.

License royalties increased by \$513,000 or 12.1% to \$4,752,000 in the fiscal 2008 period as compared to \$4,239,000 in the fiscal 2007 period. Generally, our licensees report sales and royalties based on their own fiscal periods or a calendar basis. Therefore we do not believe the additional week in the fiscal 2008 period had a significant impact on royalties. Total royalties earned on sales of hot dogs from our retail and foodservice license agreements of \$3,616,000 increased by \$279,000 or 8.4% as a result of higher licensee sales during the fiscal 2008 period. Royalties earned from SFG, primarily from the retail sale of hot dogs, were \$3,154,000 during the fiscal 2008 period as compared to \$2,975,000 during the fiscal 2007 period. The fiscal 2007 period included approximately \$168,000 relating to prior year pricing discrepancies, resulting from an internal review performed by our hot dog licensee of their reported sales. We also earned higher royalties of \$219,000 from our agreements for the sale of Nathan's pet treats, hors d'oeuvres and sales of hot dog and hamburger rolls at retail. Net royalties from all other license agreements in the fiscal 2008 period were \$15,000 higher than the fiscal 2007 period.

Interest income was \$1,084,000 in the fiscal 2008 period versus \$648,000 in the fiscal 2007 period primarily due to higher interest earned on the increased amount of marketable securities owned during the fiscal 2008 period as compared to the fiscal 2007 period. Interest income during the fiscal 2008 period also included \$158,000 earned on the promissory note held in connection with the sale of Miami Subs on June 7, 2007.

Other income was \$168,000 in the fiscal 2008 period versus \$69,000 in the fiscal 2007 period. This increase was primarily due to increased amounts earned on our Arthur Treachers' products sold by other restaurant companies and a one-time \$30,000 consent fee earned in connection with a licensee's refinancing.

Costs and Expenses from Continuing Operations

Cost of sales increased by \$2,990,000 to \$27,070,000 in the fiscal 2008 period from \$24,080,000 in the fiscal 2007 period. Our gross profit (representing the difference between sales and cost of sales) was \$9,189,000 or 25.3% during the fiscal 2008 period as compared to \$9,345,000 or 28.0% during the fiscal 2007 period. This reduced margin is primarily due to the higher cost of beef, especially in connection with the Branded Product Program, where the cost of our hot dogs was approximately 8.2% higher during the fiscal 2008 period than the fiscal 2007 period. Commodity costs of our hot dogs during the fiscal 2007 period had decreased until January 2007, when prices began to increase. During the

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(continued)

first quarter fiscal 2008, our cost of hot dogs continued to escalate, hitting a peak in May 2007. Since then, prices have been lower, but are still higher than they were during the comparable fiscal 2007 period. In addition, during the second quarter fiscal 2008, we implemented a price increase for our Branded Product Program in an effort to mitigate the increased cost of beef. We are uncertain about the future cost of our hot dogs. Overall, our Branded Product Program incurred higher costs totaling approximately \$2,402,000. This increase is the result of the increased cost of product and higher sales volume during the fiscal 2008 period as compared to the fiscal 2007 period. Beginning with the second quarter fiscal 2008, we began to realize the effects of the Branded Products price increase that took effect on June 15, 2007. During the fiscal 2008 period, the cost of restaurant sales at our six Company-owned units was \$7,856,000 or 59.8% of restaurant sales as compared to \$7,088,000 or 59.7% of restaurant sales in the fiscal 2007 period. During the fiscal 2008 period, we experienced higher food costs which were partly offset by lower labor costs as a percentage of sales. During the first quarter fiscal 2008, we increased select menu prices between 5% and 10% in an attempt to offset some of the increased cost of product in our Company-owned restaurants. Cost of sales also decreased by \$180,000 in the fiscal 2008 period primarily due to lower sales volume to our television retailer.

Restaurant operating expenses increased by \$71,000 to \$3,265,000 in the fiscal 2008 period from \$3,194,000 in the fiscal 2007 period. The increase during the fiscal 2008 period when compared to the fiscal 2007 period resulted primarily from higher marketing costs of \$40,000, utility costs of \$32,000, and maintenance costs of \$21,000, which were partly offset by lower insurance costs of \$50,000. During the fiscal 2008 period our utility costs were approximately 4.8% higher than the fiscal 2007 period. Based upon uncertain market conditions for oil and natural gas, we may continue to incur higher utility costs in the future.

Depreciation and amortization was \$763,000 in the fiscal 2008 period as compared to \$741,000 in the fiscal 2007 period.

Amortization of intangible assets was \$34,000 in both the fiscal 2008 period and the fiscal 2007 period.

General and administrative expenses increased by \$714,000 to \$8,942,000 in the fiscal 2008 period as compared to \$8,228,000 in the fiscal 2007 period. The difference in general and administrative expenses was due to higher legal fees of \$280,000 during the fiscal 2008 period primarily associated with Nathan's litigation against SFG, higher compensation costs of \$172,000 (approximately \$82,000 relates to the additional week), higher business development costs of \$72,000 in connection with Franchising and the Branded Product Program and a \$64,000 increase in Nathan's stock-based compensation expense. These cost increases were partly offset by lower accounting fees. We incurred \$93,000 in costs related to compliance with the Sarbanes-Oxley Act of 2002 ("SOX") during the fiscal 2008 period compared to \$172,000 incurred in the

fiscal 2007 period. These savings were partly offset by higher audit fees in the fiscal 2008 period, related to Nathan's first audit under SOX Section 404, requiring Nathan's auditor to audit Nathan's internal controls over financial reporting. The actual amount of future SFG litigation costs is not presently determinable.

Provision for Income Taxes from Continuing Operations

In the fiscal 2008 period, the income tax provision was \$2,472,000 or 33.8% of income from continuing operations before income taxes as compared to \$2,351,000 or 35.1% of income from continuing operations before income taxes in the fiscal 2007 period. For the fifty-three weeks ended March 30, 2008, Nathan's tax provision, excluding the effects of tax-exempt interest income, was 38.6% during the fiscal 2008 period as compared to 38.9% for the fifty-two weeks ended March 25, 2007 during the fiscal 2007 period.

Discontinued Operations

On June 7, 2007, Nathan's completed the sale of its wholly-owned subsidiary, Miami Subs to Miami Subs Capital Partners I, Inc. effective as of May 31, 2007. Pursuant to the Stock Purchase Agreement, Nathan's sold all of the stock of Miami Subs in exchange for \$3,250,000, consisting of \$850,000 in cash and the Purchaser's promissory note in the principal amount of \$2,400,000 (the "MSC Note"). Nathan's realized a gain on the sale of \$983,000, net of professional fees of \$37,000, and recorded income taxes of \$356,000 on the gain during the fifty-three week period ended March 30, 2008. The results of Miami Subs, including the fiscal 2008 period gain on disposal, have been included as discontinued operations for the fiscal 2008 and fiscal 2007 periods.

On January 26, 2006, two of Nathan's wholly-owned subsidiaries entered into a Lease Termination Agreement with respect to three leased properties in Fort Lauderdale, Florida, with its landlord and CVS 3285 FL, L.L.C., ("CVS") to sell our leasehold interests to CVS for \$2,000,000. As the properties were subject to certain sublease and management agreements between Nathan's and the then-current occupants, Nathan's made payments to, or forgave indebtedness of, the then-current occupants of the properties and paid brokerage commissions of \$494,000 in the aggregate. The property was made available to the buyer by May 29, 2007 and we received the sale proceeds on June 5, 2007. Nathan's recognized a gain of \$1,506,000 and recorded income taxes of \$557,000 during the fiscal 2008 period. The results of operations for these properties, including the gain on disposal, have been included as discontinued operations for the fiscal 2008 and fiscal 2007 periods.

During the fiscal 2007 period, income of \$39,000 and a gain of \$400,000 were recorded into income from discontinued operations resulting from the collection of proceeds from the sale of our leasehold interest and certain reimbursable operating expenses that were not reasonably assured as of March 26, 2006 in connection with the fiscal 2006 sale of vacant property at Coney Island.

Fiscal Year Ended March 25, 2007 Compared to Fiscal Year Ended March 26, 2006

Revenues from Continuing Operations

Total sales increased by \$3,640,000 or 12.2% to \$33,425,000 for the fiscal year ended March 25, 2007 (“fiscal 2007 period”) as compared to \$29,785,000 for the fiscal year ended March 26, 2006 (“fiscal 2006 period”). Sales from the Branded Product Program increased by 13.9% to \$18,774,000 for the fiscal 2007 period as compared to sales of \$16,476,000 in the fiscal 2006 period. This increase was primarily attributable to increased volume of approximately 16.4%, which was partly offset by higher rebates to various large customers in connection with the Branded Product Program. During the fiscal 2007 period, approximately 1,800 new points of distribution were opened under our Branded Product Program, including approximately 750 units within K-Mart stores. Total Company-owned restaurant sales (representing six comparable Nathan’s restaurants, including one seasonal unit) increased by 3.9% to \$11,863,000 as compared to \$11,419,000 during the fiscal 2006 period. During the second and third quarters of fiscal 2007, we experienced favorable weather conditions in the northeastern United States, which we believe was a contributing factor to the sales increase at our Company-owned restaurants. Direct sales, predominantly to our television retailer, were approximately \$898,000 higher during the fiscal 2007 period than the fiscal 2006 period resulting from the introduction of new products offered and 20 more Nathan’s television airings during the fiscal 2007 period.

Franchise fees and royalties were \$4,588,000 in the fiscal 2007 period compared to \$4,407,000 in the fiscal 2006 period. Franchise royalties were \$3,966,000 in the fiscal 2007 period as compared to \$3,671,000 in the fiscal 2006 period. Domestic franchise restaurant sales increased by 1.3% to \$94,548,000 in the fiscal 2007 period, as compared to \$93,325,000 in the fiscal 2006 period. This increase of \$1,223,000 represents the net sales difference between new units that have opened and the units that have closed between the periods, which were partly offset by higher sales from our comparable restaurants. Comparable domestic franchise sales (consisting of 127 restaurants) were \$75,162,000 in the fiscal 2007 period as compared to \$74,817,000 in the fiscal 2006 period. On October 24, 2005, during fiscal 2006, Hurricane Wilma hit southern Florida, where Nathan’s franchisees operated 13 restaurants. Most of these restaurants were affected by the storm and were temporarily closed during the fiscal 2006 period. We estimated that franchisee sales from the affected stores were reduced during the third quarter fiscal 2006 by approximately \$117,000 due to the period that the restaurants were closed. During the fiscal 2007 period, we realized \$36,000 of royalties that were previously deemed to be uncollectible and recorded increased royalty income of approximately \$82,000 as a result of our acquisition of the Arthur Treacher’s intellectual property. At March 25, 2007, 292 domestic and international franchised or licensed units were operating as compared to 290 domestic and

international franchised or licensed units at March 26, 2006. No royalty income from domestic franchised locations was deemed as unrealizable during the fiscal year ended March 25, 2007, as compared to three domestic franchised locations during the fiscal year ended March 26, 2006. Domestic franchise fee income was \$331,000 in the fiscal 2007 period, as compared to \$319,000 in the fiscal 2006 period. International franchise fee income was \$291,000 in the fiscal 2007 period, as compared to \$314,000 during the fiscal 2006 period. During the fiscal 2007 period, 19 new franchised units opened, including four units in Kuwait, one unit in Japan and one unit in the Dominican Republic. During the fiscal 2006 period, 27 new franchised units were opened, including five units in Kuwait, three units in Japan, two units in the United Arab Emirates, and one unit in the Dominican Republic. During the fiscal 2006 period, Nathan’s also recognized \$104,000 in connection with three forfeited franchise fees.

License royalties were \$4,239,000 in the fiscal 2007 period as compared to \$3,569,000 in the fiscal 2006 period. This increase was attributable to higher royalties from the sale of hot dogs, including the newly introduced Nathan’s Kosher Hot Dogs, and new agreements to license our trademarks for use with hors d’oeuvres and other items. We also recovered royalties of approximately \$168,000 relating to prior year pricing discrepancies, resulting from an internal review performed by our hot dog licensee of their reported sales.

Interest income was \$648,000 in the fiscal 2007 period versus \$450,000 in the fiscal 2006 period, primarily due to higher interest earned on the increased amount of cash and marketable securities that were invested at higher rates during the fiscal 2007 period as compared to the fiscal 2006 period.

During the fiscal 2007 period, other income was \$69,000 as compared to \$74,000 in the fiscal 2006 period. During fiscal 2006, we recognized gains of \$35,000 from the sale of fixed assets. Revenue under supplier contracts was higher than the fiscal 2006 period by \$29,000.

Costs and Expenses from Continuing Operations

Cost of sales increased by \$1,855,000 to \$24,080,000 in the fiscal 2007 period from \$22,225,000 in the fiscal 2006 period. Overall, during the fiscal 2007 period, our Branded Product Program incurred higher product costs totaling approximately \$830,000. This increase is the result of the higher volume during the fiscal 2007 period than in the fiscal 2006 period; however, the increase was significantly reduced because of the lower cost of product during the fiscal 2007 period. Our gross profit (representing the difference between sales and cost of sales) was \$9,345,000 or 28.0% of sales during the fiscal 2007 period as compared to \$7,560,000 or 25.4% of sales during the fiscal 2006 period. The primary reason for this improved margin was the impact that the lower cost of beef had on our Branded Product Program during the fiscal 2007 period. Commodity costs of our hot dogs had continuously risen during the

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(continued)

prior three consecutive years. Beginning in the summer of 2005, prices began to soften and that trend continued during most of the fiscal 2007 period. Our cost of hot dogs was approximately 10.0% lower during the fiscal 2007 period than the fiscal 2006 period. Beginning February 2007, we experienced an increase in costs for our product, as compared to the previous seven months. During the fiscal 2007 period, the cost of restaurant sales at our six comparable Company-owned units was \$7,087,000, or 59.7% of restaurant sales, as compared to \$6,694,000, or 58.6% of restaurant sales in the fiscal 2006 period. The increase was primarily due to higher labor and related costs. Cost of sales also increased by \$632,000 in the fiscal 2007 period primarily due to higher sales volume to our television retailer.

Restaurant operating expenses were \$3,194,000 in the fiscal 2007 period as compared to \$3,180,000 in the fiscal 2006 period. During the fiscal 2007 period, we incurred higher costs of \$47,000 in connection with recruiting and maintenance at our Coney Island restaurant in preparation for the summer season, which were partly offset by lower self-insurance costs and utility costs.

Depreciation and amortization was \$741,000 in the fiscal 2007 period as compared to \$759,000 in the fiscal 2006 period.

Amortization of intangible assets was \$34,000 in both the fiscal 2007 and fiscal 2006 periods.

General and administrative expenses increased by \$690,000 to \$8,228,000 in the fiscal 2007 period as compared to \$7,538,000 in the fiscal 2006 period. During the fiscal 2007 period we incurred a new expense of \$295,000 in connection with the adoption of SFAS No. 123R "Share Based Payment," which now requires Nathan's to record an expense for the fair value of options granted over the vesting period (See Note E to the Consolidated Financial Statements). In June 2006, Nathan's granted 197,500 options having a total fair value of \$1,218,000. We also incurred a new expense of \$172,000 for professional services in connection with our ongoing SOX Section 404 compliance efforts, higher business development costs of \$97,000 in connection with our Branded Product Program during the fiscal 2007 period than during the fiscal 2006 period, severance costs of \$73,000, and higher professional fees of \$7,000.

Provision for Income Taxes from Continuing Operations

In the fiscal 2007 period, the income tax provision was \$2,351,000 or 35.1% of income from continuing operations before income taxes as compared to \$1,665,000 or 36.6% of income from continuing operations before income taxes in the fiscal 2006 period. Nathan's tax provision, excluding the effects of tax-exempt interest income, was 38.9% during the fiscal period 2007 as compared to 40.5% for the fiscal 2006 period.

Discontinued Operations

Total revenues and income from discontinued operations of Miami Subs for the fifty-two weeks ended March 25, 2007 was \$2,887,000 and \$940,000, respectively, compared to \$3,075,000 and \$1,061,000, respectively, for the fifty-two weeks ended March 26, 2006.

On January 26, 2006, two of Nathan's wholly-owned subsidiaries entered into a Lease Termination Agreement with respect to three (3) leased properties in Fort Lauderdale, Florida, with its landlord, and CVS to sell our leasehold interests to CVS for \$2,000,000 before expenses. Pursuant to the Lease Termination Agreement, within 180 days following delivery of notice from CVS to Nathan's, we were required to deliver the vacated properties to CVS. On November 30, 2006, CVS provided Nathan's with notice that all necessary permits and approvals had been obtained and that all contingencies were either waived or satisfied. This transaction was concluded on June 5, 2007. During the third quarter fiscal 2007, we reclassified the results of operations based upon the November 30 notice. Total revenues from these three properties were \$100,000 and \$84,000 for the fiscal year ended March 25, 2007 and March 26, 2006, respectively. Income before taxes from these three properties were \$93,000 and \$78,000 for the fiscal 2007 and fiscal 2006 period respectively.

On July 13, 2005, we sold a vacant piece of property in Brooklyn, New York, to a third party. We also sold our leasehold interest in an adjacent property on January 17, 2006 to the same buyer. During the fiscal 2006 period, we recognized a gain of \$2,919,000, net of associated expenses in connection with the sale of our vacant piece of property, which was partly offset by an operating loss of \$80,000 during the fiscal 2006 period, in connection with this property. At March 26, 2006, the buyer owed Nathan's \$439,000 from the sale of our leasehold interest and certain reimbursable operating expenses, whose collectibility was not then reasonably assured and therefore not included in income. In July 2006, we received \$39,000 for the reimbursement of operating expenses from December 2005 and January 2006. In October 2006, we received \$400,000 relating to the sale of our leasehold interest, which was due in July 2006. During the fiscal 2007 period, income of \$39,000 and a gain of \$400,000 were recorded into income from discontinued operations resulting from these collections.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements, other than a guarantee of a severance agreement as discussed in Note I of the Notes to Consolidated Financial Statements and a purchase commitment to acquire 1,785,000 lbs. of hot dogs between April and August 2008, as discussed in Note M to the Consolidated Financial Statements. Based upon market conditions subsequent to March 30, 2008, Nathan's expects to realize cost savings of between \$100,000 to \$300,000 in connection with this transaction.

Liquidity and Capital Resources

Cash and cash equivalents at March 30, 2008 aggregated \$14,381,000, increasing by \$7,449,000 during the fiscal 2008 period. At March 30, 2008, marketable securities were \$20,950,000 and net working capital increased to \$35,650,000 from \$27,375,000 at March 25, 2007.

Cash provided by operations of \$4,852,000 in the fiscal 2008 period is primarily attributable to net income of \$6,555,000 less gains of \$2,489,000 from the sale of Miami Subs and sales of our leasehold interests, plus other non-cash items of \$2,236,000. Changes in Nathan's operating assets and liabilities decreased cash by \$1,450,000, resulting principally from decreased accounts payable and other current liabilities of \$904,000, increased accounts receivable of \$362,000, increased prepaid expenses and other current assets of \$526,000 and decreased deferred franchise fees of \$76,000 which were partly offset by an increase in other liabilities of \$452,000. The net decrease in accounts payable, other current liabilities and other long-term liabilities of \$980,000 is primarily due to the reduction in accrued income taxes payable. Accounts receivable increased primarily from the higher sales of the Branded Product Program. Deferred franchise fees decreased as a result of the franchised restaurant openings during the period.

Cash was provided from investing activities of \$2,969,000 in the fiscal 2008 period, primarily from the redemption of \$3,100,000 of maturing available-for-sale securities and due to the sale of a leasehold interest and the sale of our subsidiary, Miami Subs totaling \$1,691,000. During the period, Nathan's liquidated all of its floating rate securities, at full value, and reinvested the proceeds in short-term securities. We invested \$1,089,000 in available-for-sale securities, incurred capital expenditures of \$972,000 and received all scheduled payments of \$239,000 on the MSC Note receivable.

Cash was used in financing activities of \$372,000 in the fiscal 2008 period, primarily from the purchase of 108,900 treasury shares at a cost of \$1,928,000 as Nathan's completed a prior stock repurchase plan as authorized by the Board of Directors. Cash was received from the proceeds of employee stock option and warrant exercises of \$924,000 and the associated income tax benefit of \$632,000.

From the commencement of its stock repurchase program in September 2001 through March 30, 2008, Nathan's purchased a total of 2,000,000 shares of common stock at a cost of approximately \$9,086,000, concluding the second stock repurchase plan previously authorized by the Board of Directors. During the fiscal 2008 period the Company repurchased 108,900 shares of its common stock at a total cost of \$1,928,000. On November 5, 2007, Nathan's Board of Directors authorized the purchase of up to an

additional 500,000 shares of its common stock on behalf of the Company; there have been no purchases as of March 30, 2008. Purchases may be made from time to time, depending on market conditions, in open market or privately negotiated transactions, at prices deemed appropriate by management.

On June 11, 2008, Nathan's and Mutual Securities, Inc. ("MSI") entered into an agreement (the "10b5-1 Agreement") pursuant to which MSI has been authorized to purchase shares of the Company's common stock, par value \$.01 per share ("Common Stock") having a value of up to an aggregate \$6 million. The 10b5-1 Agreement was adopted under the safe harbor provided by Rule 10b5-1 of the Securities Exchange Act of 1934 in order to assist the Company in implementing its previously announced stock purchase plan for the purchase of up to 500,000 shares. There is no set time limit on the repurchases.

Management believes that available cash, marketable securities and cash generated from operations should provide sufficient capital to finance our operations and stock repurchases for at least the next twelve months. We currently maintain a \$7,500,000 uncommitted bank line of credit and have never borrowed any funds under this line of credit.

Nathan's philosophy with respect to maintaining a balance sheet with a significant amount of cash and marketable securities reflects our views of maintaining readily available capital to expand our existing business and any new business opportunities, which might present themselves to expand our business. Nathan's routinely assesses its investment management approach with respect to our current and potential capital requirements.

We expect that we will make additional investments in certain existing restaurants and support the growth of the Branded Product Program in the future and fund those investments from our operating cash flow. We may also incur capital expenditures in connection with opportunistic investments on a case-by-case basis.

At March 30, 2008, there were three properties that we lease from third parties which we sublease to franchisees and a non-franchisee. We remain contingently liable for all costs associated with these properties including: rent, property taxes and insurance. We may incur future cash payments with respect to such properties, consisting primarily of future lease payments, including costs and expenses associated with terminating any of such leases.

The following schedule represents Nathan's cash contractual obligations by maturity at March 30, 2008 (in thousands):

Cash Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Employment Agreements	\$ 3,285	\$1,080	\$ 905	\$ 700	\$ 600
Operating Leases	12,431	1,551	2,138	1,145	7,597
Gross Cash Contractual Obligations	15,716	2,631	3,043	1,845	8,197
Sublease Income	1,371	313	624	362	72
Net Cash Contractual Obligations	\$14,345	\$2,318	\$2,419	\$1,483	\$8,125

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(continued)

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Other Contractual Commitment					
Commitment to Purchase	\$ 2,740	\$2,740	\$ —	\$ —	\$ —
Total Other Contractual Commitment	\$ 2,740	\$2,740	\$ —	\$ —	\$ —

Inflationary Impact

We do not believe that general inflation has materially impacted earnings during fiscal 2008, 2007 and 2006. However, during fiscal 2008, we have experienced significant cost increases for certain food products, distribution costs and utilities. Our commodity costs for beef have been very volatile and increased significantly during the fiscal 2008 period. Beginning with fiscal 2004, throughout fiscal 2005 and into the first half of fiscal 2006, the price of our beef products rose dramatically over historical norms before softening somewhat during the second half of fiscal 2006 and continued softening until January 2007, which is when beef costs again began to increase. Costs continued to escalate, peaking in June 2007, before trending lower until November 2007 where costs remained constant through January 2008. Since January 2008, beef costs have begun to increase. Beef costs for fiscal 2008 were approximately 8.2% higher than fiscal 2007. Since January 2008, we have experienced cost increases for a number of our other food products. We expect to incur higher commodity costs for cooking oil, fish, potatoes and paper products in addition to continued price volatility for our beef products during fiscal 2009. As previously discussed, Nathan's increased prices in response to the increased commodity costs. In addition, for the past four years we have continued to realize the impact of higher oil prices in the form of higher distribution costs for our food products and higher utility costs in our Company-owned restaurants. From time to time, various Federal and New York State legislators have proposed changes to the minimum wage requirements. On May 25, 2007, President Bush signed legislation which increased the Federal minimum wage to \$5.85 per hour, effective July 24, 2007, with increases to \$6.55 per hour, effective July 24, 2008 and to \$7.25 per hour effective July 24, 2009. The New York State minimum wage, where our Company-owned restaurants are located, was increased to \$7.15 per hour on January 1, 2007 and will increase to \$7.25 per hour on July 24, 2009. These increases have not had a material impact on our results of operations or financial position as the vast majority of our employees are paid at a rate

higher than the minimum wage. Although we only operate six Company-owned restaurants, we believe that significant increases in the minimum wage could have a significant financial impact on our financial results and the results of our franchisees. Continued increases in labor, food and other operating expenses could adversely affect our operations and those of the restaurant industry and we might have to further reconsider our pricing strategy as a means to offset reduced operating margins.

The Company's business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations," any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, also see the discussions in "Forward-Looking Statements," "Risk Factors" and "Notes to Consolidated Financial Statements" in this annual report.

Quantitative and Qualitative 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, 2008, Nathan's cash and cash equivalents aggregated \$14,381,000. Earnings on these cash and cash equivalents would increase or decrease by approximately \$35,950 per annum for each 0.25% change in interest rates.

Marketable Securities

We have invested our marketable 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, 2008, the market value of Nathans' marketable securities aggregated \$20,950,000. Interest income on these marketable securities would increase or decrease by approximately \$52,400 per annum for each 0.25% change in interest rates. The following chart presents the hypothetical changes in the fair value of the marketable investment securities held at March 30, 2008 that are sensitive to interest rate fluctuations (in thousands):

	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
Municipal notes and bonds	\$21,804	\$21,512	\$21,228	\$20,950	\$20,678	\$20,414	\$20,155

Borrowings

The interest rate on our prior borrowings was generally determined based upon the prime rate and was subject to market fluctuation as the prime rate changed, as determined within each specific agreement. At March 30, 2008, we had no outstanding indebtedness. If we were to borrow money in the future, such borrowings would be based upon the then prevailing interest rates. We do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings. We maintain a \$7,500,000 credit line at the prime rate (5.25% as of March 30, 2008), which expires in October 2008. We have never borrowed any funds under this credit line. Accordingly, we do not believe that fluctuations in interest rates would have a material impact on our financial results.

Commodity Costs

The cost of commodities is 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 10.0% in the cost of our food and paper products for the fifty-three weeks ended March 30, 2008 would have increased or decreased our cost of sales by approximately \$2,094,000.

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.

Forward-Looking Statements

Statements in this annual report may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. 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; changes in consumer tastes; the ability to continue to attract franchisees; no material increases in the minimum wage; our ability to attract competent restaurant and managerial personnel; and the future effects of bovine spongiform encephalopathy, BSE, first identified in the United States on December 23, 2003; as well as those risks discussed from time to time in this annual report for the year ended March 30, 2008, and in other documents which we file with the Securities and Exchange Commission. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. We generally identify forward-looking statements with the words "believe," "intend," "plan," "expect," "anticipate," "estimate," "will," "should" and similar expressions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this annual report.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 30, 2008	March 25, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$14,381	\$ 6,278
Marketable securities	20,950	22,785
Accounts receivable, net	3,833	3,261
Note receivable	606	—
Inventories	822	790
Prepaid expenses and other current assets	1,493	994
Deferred income taxes	697	1,174
Current assets held for sale	—	1,539
Total current assets	42,782	36,821
Note receivable	1,305	—
Property and equipment, net	4,428	4,222
Goodwill	95	95
Intangible assets, net	1,747	1,781
Deferred income taxes	665	990
Other assets, net	180	178
Non-current assets held for sale	—	2,488
	\$51,202	\$46,575
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,805	\$ 2,298
Accrued expenses and other current liabilities	4,028	4,767
Deferred franchise fees	299	375
Current liabilities held for sale	—	2,006
Total current liabilities	7,132	9,446
Other liabilities	1,462	873
Non-current liabilities held for sale	—	377
Total liabilities	8,594	10,696
Commitments and Contingencies (Note M)		
Stockholders' Equity		
Common stock, \$.01 par value; 30,000,000 shares authorized; 8,180,683 and 7,909,183 shares issued; and 6,180,683 and 6,018,083 shares outstanding at March 30, 2008 and March 25, 2007, respectively	82	79
Additional paid-in capital	47,704	45,792
Deferred compensation	(63)	(136)
Retained earnings/(accumulated deficit)	3,746	(2,654)
Accumulated other comprehensive income (loss)	225	(44)
	51,694	43,037
Treasury stock, at cost, 2,000,000 and 1,891,100 shares at March 30, 2008 and March 25, 2007, respectively	(9,086)	(7,158)
Total stockholders' equity	42,608	35,879
	\$51,202	\$46,575

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share amounts)

	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended	Fifty-Two Weeks Ended
	March 30, 2008	March 25, 2007	March 26, 2006
Revenues			
Sales	\$36,259	\$33,425	\$29,785
Franchise fees and royalties	5,132	4,588	4,407
License royalties	4,752	4,239	3,569
Interest income	1,084	648	450
Other income	168	69	74
Total revenues	47,395	42,969	38,285
Costs and Expenses			
Cost of sales	27,070	24,080	22,225
Restaurant operating expenses	3,265	3,194	3,180
Depreciation and amortization	763	741	759
Amortization of intangible assets	34	34	34
General and administrative expenses	8,942	8,228	7,538
Total costs and expenses	40,074	36,277	33,736
Income from continuing operations before provision for income taxes	7,321	6,692	4,549
Provision for income taxes	2,472	2,351	1,665
Income from continuing operations	4,849	4,341	2,884
Income from discontinued operations, including gains on disposal of discontinued operations before income taxes of \$2,489 in 2008, \$400 in 2007 and \$2,919 in 2006	2,711	1,990	4,589
Income tax expense	1,005	788	1,796
Income from discontinued operations	1,706	1,202	2,793
Net income	\$ 6,555	\$ 5,543	\$ 5,677
Per Share Information			
Basic income per share:			
Income from continuing operations	\$ 0.80	\$ 0.74	\$ 0.52
Income from discontinued operations	0.28	0.21	0.50
Net income	\$ 1.08	\$ 0.95	\$ 1.02
Diluted income per share:			
Income from continuing operations	\$ 0.75	\$ 0.68	\$ 0.44
Income from discontinued operations	0.26	0.19	0.43
Net income	\$ 1.01	\$ 0.87	\$ 0.87
Weighted average shares used in computing income per share			
Basic	6,085,000	5,836,000	5,584,000
Diluted	6,502,000	6,341,000	6,546,000

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

Fifty-Three Weeks Ended March 30, 2008, and Fifty-Two Weeks Ended March 25, 2007 and March 26, 2006

	Common Shares	Common Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Total Stockholders' Equity	Total Comprehensive Income (Loss)
Balance, March 27, 2005	7,440,317	\$74	\$42,665	\$(281)	\$(13,874)	\$ (70)	1,891,100 \$(7,158)	\$21,356	
Shares issued in connection with exercise of employee stock options	160,082	2	640	—	—	—	—	642	
Income tax benefit on stock option exercises	—	—	394	—	—	—	—	394	
Amortization of deferred compensation relating to restricted stock	—	—	—	73	—	—	—	73	
Unrealized (losses) on marketable securities, net of deferred income tax (benefit) of (\$63)	—	—	—	—	—	(94)	—	(94)	(94)
Net income	—	—	—	—	5,677	—	—	5,677	5,677
Comprehensive income	—	—	—	—	—	—	—	—	\$5,583
Balance, March 26, 2006	7,600,399	\$76	\$43,699	\$(208)	\$(8,197)	\$(164)	1,891,100 \$(7,158)	\$28,048	
Shares issued in connection with exercise of employee stock options	308,784	3	719	—	—	—	—	722	
Income tax benefit on stock option exercises	—	—	1,079	—	—	—	—	1,079	
Share-based compensation	—	—	295	—	—	—	—	295	
Amortization of deferred compensation relating to restricted stock	—	—	—	72	—	—	—	72	
Unrealized gains on marketable securities, net of deferred income tax of \$80	—	—	—	—	—	120	—	120	120
Net income	—	—	—	—	5,543	—	—	5,543	5,543
Comprehensive income	—	—	—	—	—	—	—	—	\$5,663
Balance, March 25, 2007	7,909,183	\$79	\$45,792	\$(136)	\$(2,654)	\$ (44)	1,891,100 \$(7,158)	\$35,879	
Shares issued in connection with exercise of employee stock options and warrants	271,500	3	921	—	—	—	—	924	
Repurchase of common stock	—	—	—	—	—	—	108,900 (1,928)	(1,928)	
Income tax benefit on stock option exercises	—	—	632	—	—	—	—	632	
Share-based compensation	—	—	359	—	—	—	—	359	
Amortization of deferred compensation relating to restricted stock	—	—	—	73	—	—	—	73	
Unrealized gains on marketable securities, net of deferred income tax of \$184	—	—	—	—	—	269	—	269	269
Cumulative effect of the adoption of FIN No. 48 as of March 26, 2007 (Note K)	—	—	—	—	(155)	—	—	(155)	
Net income	—	—	—	—	6,555	—	—	6,555	6,555
Comprehensive income	—	—	—	—	—	—	—	—	\$6,824
Balance, March 30, 2008	8,180,683	\$82	\$47,704	\$(63)	\$ 3,746	\$ 225	2,000,000 \$(9,086)	\$42,608	

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended	Fifty-Two Weeks Ended
	March 30, 2008	March 25, 2007	March 26, 2006
Cash Flows from Operating Activities:			
Net income	\$ 6,555	\$ 5,543	\$ 5,677
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	766	791	812
Amortization of intangible assets	78	262	262
Amortization of bond premium	278	269	232
Amortization of deferred compensation	73	72	73
Gain on sale of subsidiary and leasehold interests	(2,489)	(400)	(2,919)
Gain on disposal of fixed assets	—	(29)	(66)
Loss on sale of available for sale securities	—	—	2
Share-based compensation expense	359	295	—
Provision for doubtful accounts	—	(6)	10
Income tax benefit on stock option exercises	—	—	394
Deferred income taxes	682	(180)	175
Changes in operating assets and liabilities:			
Notes and accounts receivable, net	(362)	(117)	(567)
Inventories	(32)	27	(129)
Prepaid expenses and other current assets	(526)	243	(223)
Other assets	(2)	32	(11)
Accounts payable, accrued expenses and other current liabilities	(904)	1,374	600
Deferred franchise fees	(76)	156	(119)
Other liabilities	452	(141)	(142)
Net cash provided by operating activities	4,852	8,191	4,061
Cash Flows from Investing Activities:			
Proceeds from sale of available-for-sale securities	3,100	—	2,245
Purchase of available-for-sale securities	(1,089)	(5,972)	(7,877)
Purchase of intellectual property	—	(7)	(1,346)
Purchase of property and equipment	(972)	(539)	(795)
Payments received on notes receivable	239	88	350
Proceeds from sales of subsidiary and leasehold interest	1,691	400	3,621
Net cash provided by (used in) investing activities	2,969	(6,030)	(3,802)
Cash Flows from Financing Activities:			
Principal repayments of notes payable and capitalized lease obligations	—	(39)	(827)
Repurchase of treasury stock	(1,928)	—	—
Income tax benefit on stock option exercises	632	1,079	—
Proceeds from the exercise of stock options and warrant	924	722	642
Net cash provided by (used in) financing activities	(372)	1,762	(185)
Net increase in cash and cash equivalents	7,449	3,923	74
Cash and cash equivalents, beginning of year	6,932	3,009	2,935
Cash and cash equivalents, end of year	\$14,381	\$ 6,932	\$ 3,009
Cash paid during the year for:			
Interest	\$ —	\$ 1	\$ 31
Income taxes	\$ 2,942	\$ 1,353	\$ 3,040
Noncash Financing Activities:			
Loan made in connection with the sale of subsidiary	\$ 2,150	\$ —	\$ —

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, 2008, March 25, 2007 and March 26, 2006

Note A—Description and Organization of Business

Nathan's Famous, Inc. and subsidiaries (collectively the "Company" or "Nathan's") has historically operated or franchised a chain of retail fast food restaurants featuring the Nathan's Famous brand of all beef frankfurters, fresh crinkle-cut French-fried potatoes and a variety of other menu offerings. Nathan's has also established a Branded Product Program, which enables foodservice retailers to sell some of Nathan's proprietary products outside of the realm of a traditional franchise relationship. The Company is also the owner of the Arthur Treacher's brand (See Note C). Arthur Treacher's main product is its "Original Fish & Chips" product consisting of fish fillets coated with a special batter prepared under a proprietary formula, deep-fried golden brown, and served with English-style chips and corn meal "hush puppies." The Company, through wholly-owned subsidiaries, was also the franchisor of Kenny Rogers Roasters ("Roasters") and Miami Subs through April 23, 2008 and May 30, 2007, respectively. (See Notes P and H for discussion of the sales of these subsidiaries.) 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, 2008, the Company's restaurant system included six company-owned units in the New York City metropolitan area and 322 franchised or licensed units, located in 22 states and 11 foreign countries.

Note B—Summary of Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements:

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company 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, 2008 are on the basis of a 53-week reporting period and the results of operations and cash flows for the fiscal years ended March 25, 2007 and March 26, 2006 are on the basis of 52-week reporting periods.

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 revenue recognition, the allowance for doubtful accounts, valuation of notes receivable, valuation of stock-based compensation, income taxes and valuation of goodwill, other intangible assets and other long-lived assets.

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 equivalents amounted to \$11,100 and \$3,294 at March 30, 2008 and March 25, 2007, respectively. Included in cash and cash equivalents is cash restricted for untendered shares associated with the acquisition of Nathan's in 1987 of \$54 at March 30, 2008 and March 25, 2007.

5. Impairment of Notes Receivable

Nathan's follows the guidance in Statement of Financial Accounting Standards ("SFAS") 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) loans 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 no notes receivable are impaired at March 30, 2008. At March 25, 2007, there were certain notes that were deemed to be impaired which are presented, net of an allowance of \$1,628 for impaired notes receivable, as a component of assets held for sale.

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.

6. Inventories

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

7. Marketable Securities

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, 2008 and March 25, 2007, all marketable securities held by the Company have been classified as available-for-sale and, as a result, are stated at fair value, based upon quoted market price as determined in active markets, with unrealized gains and losses included as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Realized gains and losses on the sale of securities, as determined on a specific identification basis, are included in the accompanying consolidated statements of earnings (See Note F).

8. Sales of Restaurants

The Company observes the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," ("SFAS No. 66") 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 records 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.

9. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation and amortization are calculated 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	3–15 years
Leasehold improvements	5–20 years

10. Goodwill and Intangible Assets

Intangible assets primarily consist of (i) goodwill of \$95 resulting from the acquisition of Nathan's in 1987; (ii) trademarks, trade names and franchise rights of \$394 in connection with Roasters, (See Note P) and (iii) trademarks, trade names and other intellectual property of \$1,353 in connection with Arthur Treacher's (See Note C).

The table below presents amortized and unamortized intangible assets as of March 30, 2008 and March 25, 2007:

	March 30, 2008			March 25, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Royalty streams	\$666	\$(299)	\$ 367	\$666	\$(266)	\$ 400
Other	6	(6)	—	6	(5)	1
	<u>\$672</u>	<u>\$(305)</u>	<u>\$ 367</u>	<u>\$672</u>	<u>\$(271)</u>	<u>\$ 401</u>
Unamortized intangible assets:						
Trademarks and tradenames			<u>1,380</u>			<u>1,380</u>
			<u>\$1,747</u>			<u>\$1,781</u>
Goodwill			<u>\$ 95</u>			<u>\$ 95</u>

As of March 30, 2008 and March 25, 2007, the Company has performed its required annual impairment test of goodwill and other intangible assets, and has determined no impairment is deemed to exist.

Total amortization expense for intangible assets was \$34 for each of the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006. As a result of the April 23, 2008 sale of Roasters (Note P), the Company will no longer have any amortizable intangibles and, as a result, no amortization expense is currently expected in the next five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

11. Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that 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. No units were deemed impaired during the fiscal years, ended March 30, 2008, March 25, 2007 and March 26, 2006.

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, 2008 and March 25, 2007 were \$107 and \$197, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

During the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, the Company reversed approximately \$61, \$53, and \$55 respectively, of previously recorded insurance accruals to reflect the revised estimated cost of claims.

13. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximate fair value due to the short-term maturities of the instruments. The carrying amount of the note receivable approximates its fair value as the current interest rate on such instrument approximates current market interest rates on similar instruments.

14. Start-up Costs

Pre-opening and similar costs are expensed as incurred.

15. Revenue Recognition—Branded Products Operations

The Company recognizes revenue from the Branded Product Program when it is determined that the products have been delivered via third party common carrier to Nathan's customers. Rebates provided to customers are classified as a reduction of revenues.

16. Revenue Recognition—Company-owned Restaurants

Sales by Company-owned restaurants, which are typically paid in cash by the customer, are recognized upon the performance of services. Sales are presented, net of sales tax, pursuant to EITF Issue 06-3.

17. Revenue Recognition—Franchising Operations

In connection with its franchising operations, the Company receives initial franchise fees, development fees, royalties, and in certain cases, revenue from sub-leasing restaurant properties to franchisees.

Franchise and area development fees, which are typically received prior to completion of the revenue recognition process, are initially recorded as deferred revenue. Initial franchise fees, which are non-refundable, are initially 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.

At March 30, 2008 and March 25, 2007, \$299 and \$375, respectively, of deferred franchise fees are included in the accompanying consolidated balance sheets. For the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, the Company earned franchise fees of \$970, \$622 and \$665, respectively, from new unit openings, transfers, co-branding and forfeitures.

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, 2008 and March 25, 2007, \$214 and \$306, respectively, of deferred development fee revenue is included in "Other liabilities" in the accompanying consolidated balance sheets.

The following is a summary of franchise openings and closings for the Nathan's and Kenny Rogers restaurant systems for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006:

	March 30, 2008	March 25, 2007	March 26, 2006
Franchised restaurants operating at the beginning of the period	294	290	271
New franchised restaurants opened during the period	46	21	30
Franchised restaurants closed during the period	(18)	(17)	(11)
Franchised restaurants operating at the end of the period	322	294	290

The Company recognizes franchise royalties, which are generally based upon a percentage of sales made by the Company's franchisees, 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 or until collectibility is deemed to be reasonably assured. Revenue from sub-leasing properties to franchisees is recognized in income as the revenue is earned and becomes receivable and deemed collectible. Sub-lease rental income is presented net of associated lease costs in the accompanying consolidated statements of operations.

18. Revenue Recognition—License Royalties

The Company earns revenue from royalties on the licensing of the use of its name on certain products produced and sold by outside vendors. The use of the Company name and symbols must be approved by the Company prior to each specific application to ensure proper quality and project a consistent image. Revenue from license royalties is recognized when it is earned and deemed collectible.

19. Interest Income

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

20. Other income

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

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

Other income for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006 consists of the following:

	March 30, 2008	March 25, 2007	March 26, 2006
Gain on disposal of fixed assets	\$ —	\$—	\$35
Amortization of supplier contributions	34	52	30
Other income	134	17	9
	\$168	\$69	\$74

21. Business Concentrations and Geographical Information

The Company's accounts receivable consist principally of receivables from franchisees for royalties and advertising contributions, from sales under the Branded Product Program, and for royalties from retail licensees. At March 30, 2008, one retail licensee and three Branded Product customers each represented 19%, 15%, 11% and 10%, respectively, of accounts receivable. At March 25, 2007, one retail licensee and two Branded Products distributors represented 21%, 16% and 13%, respectively, of accounts receivable.

No franchisee, retail licensee or Branded Product customer accounted for 10% or more of revenues during the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006.

The Company's primary supplier of frankfurters represented 77%, 74% and 77% of product purchases for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, respectively. The Company's distributor of product to its Company-owned restaurants represented 15%, 16%, and 13% of product purchases for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, respectively.

The Company's revenues for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006 were derived from the following geographic areas:

	March 30, 2008	March 25, 2007	March 26, 2006
Domestic (United States)	\$46,520	\$41,738	\$36,907
Non-domestic	875	1,231	1,378
	\$47,395	\$42,969	\$38,285

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

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%. Net Company-owned store advertising expense was \$224, \$184, and \$194, for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, respectively.

23. Stock-Based Compensation

At March 30, 2008, the Company had several stock-based employee compensation plans in effect which are more fully described in Note L. As of the beginning of fiscal 2007, Nathan's adopted SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") using the modified prospective method. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") and supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Prior to March 27, 2006, Nathan's accounted for stock-based compensation using the intrinsic value method pursuant to APB No. 25 and related interpretations by disclosing the pro forma net income (loss) and net income (loss) per share as if the fair value method had been applied in accordance with SFAS No. 123. Under the intrinsic value method, no compensation expense was recognized if the exercise price of the grant equaled or exceeded the market price of the underlying stock on the date of grant. Nathan's has issued all stock option grants at prices equal to or in excess of the market price on the date of grant.

SFAS No. 123R requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values measured at the grant date, or the date of later modification, over the requisite service period. The Company utilizes the straight-line attribution method to recognize the expense associated with awards with graded vesting terms. In addition, under the modified prospective approach, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in pro forma footnote disclosures) related to awards vesting after the date of initial adoption to be recognized by the Company in the financial statements over the remaining requisite service period. Therefore, the amount of compensation costs to be recognized over the requisite service period on a prospective basis after March 26, 2006 includes: (i) previously unrecognized compensation cost for all share-based payments granted prior to, but not yet vested as of, March 26, 2006 based on

their fair values measured at the grant date, (ii) compensation cost of all share-based payments granted subsequent to March 26, 2006 based on their respective grant date fair value, and (iii) the incremental fair value of awards modified subsequent to March 26, 2006 measured as of the date of such modification.

Share-based compensation recognized pursuant to the adoption of SFAS 123R during the fiscal years ended March 30, 2008 and March 25, 2007 was \$359 and \$295, respectively, is included in general and administrative expense in the accompanying Consolidated Statements of Earnings. As of March 30, 2008, there was \$1,324 of unamortized compensation expense related to stock options. The Company expects to recognize this expense over approximately three years, eight months, which represents the weighted average remaining requisite service periods for such awards.

During the fiscal year ended March 30, 2008, the Company granted 110,000 stock options having an exercise price of \$17.43 per share, all of which expire five years from the date of grant. 60,000 of the options granted will be vested as follows: 25% on the first anniversary of the grant, 50% on the second anniversary of the grant, 75% on the third anniversary of the grant and 100% on the fourth anniversary of the grant. 50,000 of the options granted will be vested as follows: 33.3% on the first anniversary of the grant, 66.7% on the second anniversary of the grant and 100% on the third anniversary of the grant.

During the fiscal year ended March 25, 2007, the Company granted 197,500 stock options having an exercise price of \$13.08 per share, all of which expire ten years from the date of grant. All 197,500 options granted will be vested as follows: 20% on the first anniversary of the grant, 40% on the second anniversary of the grant, 60% on the third anniversary of the grant, 80% on the fourth anniversary of the grant and 100% on the fifth anniversary of the grant.

No options were granted during the fiscal year ended March 26, 2006.

The weighted-average option fair values, as determined using the Black-Scholes option valuation model, and the assumptions used to estimate these values for stock options granted during the fiscal years ended March 30, 2008 and March 25, 2007 are as follows:

	Fiscal Year Ended	
	March 30, 2008	March 25, 2007
Weighted-average option fair values	\$5.8270	\$6.1686
Expected life (years)	4.25	7.0
Interest rate	4.21%	5.21%
Volatility	32.93%	34.33%
Dividend yield	0%	0%

The following table illustrates the effect on net income and income per share had the fair value-based method prescribed by SFAS No. 123, been applied to stock-based employee compensation during the year ended March 26, 2006.

	March 26, 2006
Net income, as reported	\$5,677
Add: Stock-based compensation included in net income	44
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(132)
Pro forma net income	\$5,589
Net income per share	
Basic—as reported	\$ 1.02
Diluted—as reported	\$ 0.87
Basic—pro forma	\$ 1.00
Diluted—pro forma	\$ 0.85

24. Classification of Operating Expenses

Cost of sales consists of the following:

- The cost of products sold by the Company-operated restaurants, through the Branded Product Program and other distribution channels.
- 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 such as fulfillment, 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.

25. Income Taxes

The Company's current provision for income taxes is based upon its estimated taxable income in each of the jurisdictions in which it operates, after considering the impact on taxable income of temporary differences resulting from different treatment of items such as depreciation, estimated self-insurance liabilities, allowance for doubtful accounts and tax credits and net operating losses ("NOL") for tax and reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts

of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

Uncertain Tax Positions

The Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN No. 48") which was adopted by the Company on March 26, 2007. FIN No. 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN No. 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements. (See Note K.)

26. Reclassifications

Certain prior years' balances related to discontinued operations (See Note H) have been reclassified to conform with Nathan's current year presentation.

27. Recently Issued Accounting Standards Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157"), to eliminate the diversity in practice that exists due to the different definitions of fair value. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. SFAS No. 157 states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. As such, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, which is the first quarter of fiscal 2009, except for, with respect to certain non-financial assets and liabilities, for which the effective date will be our first quarter of fiscal 2010. The Company has not yet evaluated the impact of the adoption of SFAS No. 157 on the Company's financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115,” (“SFAS No. 159”). This standard amends SFAS No. 115, “Accounting for Certain Investment in Debt and Equity Securities,” with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted for as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, which is the first quarter of fiscal 2009. The adoption will not have a material impact on the Company’s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The requirements of SFAS No. 141R are effective for fiscal years beginning on or after December 15, 2008, which for us is fiscal 2010. Earlier adoption is prohibited. The Company has not yet evaluated the impact of SFAS No. 141R on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which for us is the first quarter of fiscal 2010. Earlier adoption is prohibited. The Company has not yet evaluated the impact of SFAS No. 160 on its consolidated financial position and results of operations.

Note C—Acquisition

On February 28, 2006, the Company acquired all trademarks and other intellectual property relating to the Arthur Treacher’s brand from PAT Franchise Systems, Inc. (“PFSI”) for \$1,250 in cash plus related expenses of approximately \$103 and terminated its Co-Branding Agreement with PFSI. Since fiscal 2000, the Company has successfully co-branded certain Arthur Treacher’s signature products in Nathan’s franchise system. Based upon such co-branding success, the Company acquired these assets to continue its co-branding efforts and seek new means of distribution.

The Company simultaneously granted back to PFSI a limited license to use the Arthur Treacher’s intellectual property solely for the purposes of: (a) continuing to permit PFSI to operate its then existing Arthur Treacher’s franchised restaurant system (approximately 60 restaurants); and (b) PFSI granting rights to third parties who wish to develop new traditional Arthur Treacher’s quick service restaurants in Indiana, Maryland, Michigan, Ohio, Pennsylvania, Virginia, Washington D.C. and areas of Northern New York State (collectively, the “PFSI Markets”). The Company also retained certain rights to sell franchises for the operation of Arthur Treacher’s restaurants in certain circumstances within the geographic scope of the PFSI Markets. PFSI has no obligation to pay fees or royalties to the Company in connection with its use of the Arthur Treacher’s system within the PFSI Markets.

NF Treacher’s Corp., a wholly-owned subsidiary, was created for the purpose of acquiring these assets. The acquired assets have been recorded as trademarks and trade names. No restaurants were acquired in this transaction. Results of operations are included in these consolidated financial statements since February 28, 2006.

The following presents the pro forma results of operations, which are not necessarily indicative of the results that would have been attained, had the acquisition actually taken place, as if the Company had owned these assets at the beginning of the fiscal year ended March 26, 2006:

	Fifty-Two Weeks Ended
	March 26, 2006
Total revenues	\$38,421
Income from continuing operations	2,969
Net income	\$ 5,762
Basic income per share:	
Income from continuing operations	\$.53
Net income	\$ 1.03
Diluted income per share:	
Income from continuing operations	\$.45
Net income	\$.88

Note D—Income Per Share

Basic income per common share is calculated by dividing income by the weighted-average number of common shares outstanding and excludes any dilutive effects of stock options or warrants. Diluted income 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 income 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, 2008, March 25, 2007 and March 26, 2006, respectively:

	Income from Continuing Operations			Shares			Income Per Share from Continuing Operations		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Basic EPS									
Basic calculation	\$4,849	\$4,341	\$2,884	6,085,000	5,836,000	5,584,000	\$.80	\$.74	\$.52
Effect of dilutive employee stock options and warrants	—	—	—	417,000	505,000	962,000	(.05)	(.06)	(.08)
Diluted EPS									
Diluted calculation	\$4,849	\$4,341	\$2,884	6,502,000	6,341,000	6,546,000	\$.75	\$.68	\$.44

Options and warrants to purchase 55,000, 98,750 and 19,500 shares of common stock for the years ended March 30, 2008, March 25, 2007 and March 26, 2006, 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 E—Accounts Receivable, Net

Accounts receivable, net, consist of the following:

	March 30, 2008	March 25, 2007
Franchise and license royalties	\$1,424	\$1,290
Branded product sales	2,118	1,717
Other	395	348
	3,937	3,355
Less: allowance for doubtful accounts	104	94
Accounts receivable, net	\$3,833	\$3,261

Accounts receivable are due within 30 days and are stated at amounts due from franchisees, retail licensees and Branded Product Program customers, 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 accounts receivable are past due, the Company's previous loss history, the customer's current and expected future 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 are deemed to be uncollectible.

Changes in the Company's allowance for doubtful accounts for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006 are as follows:

	March 30, 2008	March 25, 2007	March 26, 2006
Beginning balance	\$ 94	\$128	\$119
Bad debt expense	—	—	10
Uncollectible marketing fund contributions	20	—	1
Accounts written off	(10)	(34)	(2)
Ending balance	\$104	\$ 94	\$128

Note F—Marketable Securities

The cost, gross unrealized gains, gross unrealized losses and fair market value for marketable securities, which consists entirely of bonds which are classified as available-for-sale securities are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
March 30, 2008	\$20,590	\$365	\$ (5)	\$20,950
March 25, 2007	\$22,878	\$ 44	\$(137)	\$22,785

As of March 30, 2008, the bonds mature at various dates between July 2007 and April 2017. The following represents the bond maturities by period as follows:

Fair Value of Bonds	Total	Less than	1–5	5–10	After 10
		1 Year	Years	Years	Years
March 30, 2008	\$20,950	\$2,235	\$11,124	\$6,346	\$1,245
March 25, 2007	\$22,785	\$3,128	\$12,320	\$6,258	\$1,079

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

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

	March 30, 2008	March 25, 2007	March 26, 2006
Available-for-sale securities:			
Proceeds	\$3,100	—	\$2,245
Gross realized gains	—	—	—
Gross realized losses	—	—	(2)

The change in net unrealized gains (losses) on available-for-sale securities for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, respectively, of \$269, \$120, and \$(94), which is net of deferred income taxes, have been included as a component of comprehensive income.

Note G—Property and Equipment, Net

Property and equipment consists of the following:

	March 30, 2008	March 25, 2007
Land	\$ 1,094	\$ 1,094
Building and improvements	2,130	1,972
Machinery, equipment, furniture and fixtures	5,931	5,353
Leasehold improvements	3,817	3,608
Construction-in-progress	18	89
	<u>12,990</u>	12,116
Less: accumulated depreciation and amortization	8,562	7,894
	<u>\$ 4,428</u>	\$ 4,222

Depreciation and amortization expense on property and equipment was \$763, \$741, and \$759 for the fiscal years ended March 30, 2008, March 25, 2007, and March 26, 2006, respectively.

Note H—Discontinued Operations

The Company follows the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”), related to the accounting and reporting for segments of a business to be disposed of. In accordance with SFAS No. 144, the definition of discontinued operations includes components of an entity whose cash flows are clearly identifiable. SFAS No. 144 requires the Company to classify as discontinued operations any restaurant, investment or other property that Nathan’s sells, abandons or otherwise disposes of where the Company will have no further involvement in the operation of, or cash flows from, such restaurant, investment or other property.

1. Sale of Miami Subs

On June 7, 2007, Nathan’s completed the sale of its wholly-owned subsidiary, Miami Subs Corporation (“Miami Subs”) to Miami Subs Capital Partners I, Inc. (“Purchaser”). Pursuant to the Stock Purchase Agreement (“Agreement”), Nathan’s sold all of the stock of Miami Subs in exchange for \$3,250 consisting of \$850 in cash and the Purchaser’s promissory note in the principal amount of \$2,400 (the “Note”). The Note bears interest at 8% per annum, is payable over a four-year term and is secured by a lien on all of the assets of Miami Subs and by the personal guarantees of two principals of the Purchaser. The Purchaser may also prepay the Note at any time. In the event the Note is fully repaid within one year, Nathan’s will reduce the amount due by \$250. Due to the ability to prepay the loan and reduce the amount due, the recognition of the additional \$250 has been deferred. In accordance with the Agreement, Nathan’s retained ownership of Miami Subs’ then corporate office in Fort Lauderdale, Florida (the “Corporate Office”).

The following is a summary of the assets and liabilities of Miami Subs, as of the date of sale, that were sold:

Cash	\$ 674 ^(a)
Accounts receivable, net	213
Notes receivable, net	153
Prepaid expenses and other current assets	119
Deferred income taxes, net	719
Property and equipment, net	48
Intangible assets, net	1,803
Other assets, net	46
Total assets sold	<u>3,775</u>
Accounts payable	27
Accrued expenses	1,373 ^(a)
Other liabilities	395
Total liabilities sold	<u>1,795</u>
Net assets sold	<u>\$1,980</u>

(a) Includes unexpended marketing funds of \$565.

In connection with the Agreement, Purchaser may continue to sell Nathan’s Famous and Arthur Treacher’s products within the existing restaurant system in exchange for a royalty payment of 35% of all royalties contractually due from Miami Subs franchisees on such sales.

Nathan’s has realized a gain on the sale of Miami Subs of \$983, net of professional fees of \$37 and recorded income taxes of \$356 on the gain. Nathan’s has determined that it will not have any significant cash flows or continuing involvement in the ongoing operations of Miami Subs. Therefore, the results of operations for Miami Subs, including the gain on disposal, have been presented as discontinued operations for all periods presented. The accompanying balance sheet for the fiscal year ended March 25, 2007, has been revised to reflect the assets and liabilities of Miami Subs that were subsequently sold, as held for sale as of that date. (See Note H-5).

2. Sale of Leasehold Interest

On January 26, 2006, two of Nathan's wholly-owned subsidiaries entered into a Lease Termination Agreement with respect to three leased properties in Fort Lauderdale, Florida, with its landlord and CVS 3285 FL, L.L.C., ("CVS") to sell their leasehold interests to CVS for \$2,000. As the properties were subject to certain sublease and management agreements between Nathan's and the then-current occupants, Nathan's made payments to, or forgave indebtedness of, the then-current occupants of the properties and paid brokerage commissions of \$494 in the aggregate. Nathan's made the property available to the buyer by May 29, 2007, and Nathan's received the proceeds of the sale on June 5, 2007. Nathan's recognized a gain of \$1,506 and recorded income taxes of \$557 during the year ended March 30, 2008. The results of operations for these properties, including the gain on disposal, have been included as discontinued operations for all periods presented as the Company will have no continuing involvement in the operation of, or cash flows from, these properties.

3. Sale of Real Estate

On July 13, 2005, Nathan's sold all of its right, title and interest in and to a vacant real estate parcel previously utilized as a parking lot, adjacent to a Company-owned restaurant, located in Brooklyn, New York, in exchange for a cash payment of \$3,100. A gain of \$2,819 was recognized into income during the year ended March 26, 2006. Nathan's also entered into an agreement pursuant to which an affiliate of the buyer assumed all of Nathan's rights and obligations under a lease for an adjacent property and agreed to pay \$500 to Nathan's for its leasehold interest on the earlier of (i) three years after closing or (ii) six months after the closing of the adjacent property. On January 17, 2006, the adjacent property was sold. The Company received \$100 during fiscal 2006 and the remaining balance of \$400 was received in October 2006 and is included as a gain from discontinued operations during fiscal 2007. The operating expenses for these properties have been included in discontinued operations for all periods presented as the Company has no continuing involvement in the operation of, or cash flows from, these properties.

4. Sale of Restaurant

During the year ended March 26, 2006, the Company sold one Company-owned restaurant that it had previously leased to the operator pursuant to management agreement for total cash consideration of \$515 and entered into a franchise agreement with the buyer to continue operating the restaurant. As this restaurant was a Miami Subs location and the Miami Subs subsidiary was sold during the fiscal year ended March 30, 2008 and is included as a component of discontinued operations, this sales transaction has been included in such discontinued operations.

5. Summary Financial Information

The following is a summary of all discontinued operations for fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006:

	March 30, 2008	March 25, 2007	March 26, 2006
Revenues (excluding gains from dispositions)	\$ 430	\$2,926	\$2,995
Gain from dispositions before income taxes	\$2,489	\$ 400	\$2,919
Income before income taxes	\$2,711	\$1,990	\$4,589

The following is a summary of the assets and liabilities held for sale as of March 25, 2007

Cash	\$ 654 ^(a)
Accounts receivable, net	456
Notes receivable, net	120
Prepaid expenses and other current assets	26
Deferred income taxes	784
Property and equipment, net	94
Intangible assets, net	1,847
Other assets, net	46
Total assets held for sale	4,027
Accounts payable	135
Accrued expenses	1,871 ^(a)
Other liabilities	377
Total liabilities held for sale	2,383
Net assets held for sale	\$1,644

(a) Includes unexpended marketing funds of \$627.

Note I—Accrued Expenses, Other Current Liabilities and Other Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 30, 2008	March 25, 2007
Payroll and other benefits	\$1,803	\$1,684
Accrued operating expenses	1,029	851
Professional and legal costs	234	266
Self-insurance costs	107	197
Rent and occupancy costs	153	106
Taxes payable	65	1,010
Unexpended advertising funds	244	297
Deferred revenue	188	215
Other	205	141
	\$4,028	\$4,767

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

Other liabilities consist of the following:

	March 30, 2008	March 25, 2007
Deferred income—supplier contracts	\$ 363	\$363
Deferred development fees	214	306
Reserve for uncertain tax positions (Note K)	773	—
Deferred rental liability	81	158
Tenant's security deposits on subleased property	31	46
	<u>\$1,462</u>	<u>\$873</u>

Note J—Indebtedness

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, 2008, and bears interest at the prime rate (5.25% at March 30, 2008). There were no borrowings outstanding under this line of credit as of March 30, 2008 and March 25, 2007.

Note K—Income Taxes

Income tax provision (benefit) consists of the following for the fiscal years ended March 30, 2008, March 25, 2007, and March 26, 2006:

	March 30, 2008	March 25, 2007	March 26, 2006
Federal			
Current	\$1,327	\$1,968	\$1,252
Deferred	548	(304)	(47)
	<u>1,875</u>	<u>1,664</u>	<u>1,205</u>
State and local			
Current	500	741	467
Deferred	97	(54)	(7)
	<u>597</u>	<u>687</u>	<u>460</u>
	<u>\$2,472</u>	<u>\$2,351</u>	<u>\$1,665</u>

Total income tax provision (benefit) for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006 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:

	March 30, 2008	March 25, 2007	March 26, 2006
Computed "expected" tax expense	\$2,489	\$2,275	\$1,546
Nondeductible amortization	7	7	7
State and local income taxes, net of Federal income tax benefit	359	245	277
Tax-exempt investment earnings	(309)	(220)	(150)
Nondeductible meals and entertainment and other	(74)	44	(15)
	<u>\$2,472</u>	<u>\$2,351</u>	<u>\$1,665</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, 2008	March 25, 2007
Deferred tax assets		
Accrued expenses	\$ 331	\$ 616
Allowance for doubtful accounts	37	38
Deferred revenue	404	530
Depreciation expense	894	720
Expenses not deductible until paid	43	79
Deferred stock compensation	261	118
Amortization of intangibles	100	129
Unrealized loss on marketable securities	—	29
Excess of straight line over actual rent	63	85
Other	10	12
Total gross deferred tax assets	<u>\$2,143</u>	<u>\$ 2,356</u>
Deferred tax liabilities		
Difference in tax bases of installment gains not yet recognized	347	—
Deductible prepaid expense	209	154
Unrealized gain on marketable securities	152	—
Other	73	38
Total gross deferred tax liabilities	<u>781</u>	<u>192</u>
Net deferred tax asset	<u>1,362</u>	<u>2,164</u>
Less current portion	(697)	(1,174)
Long-term portion	<u>\$ 665</u>	<u>\$ 990</u>

A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Based upon anticipated taxable income, management believes that it is more likely than not that the Company will realize the benefit of this net deferred tax asset of \$1,362 and \$2,164 at March 30, 2008 and March 25, 2007, respectively.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"), which clarified the accounting and disclosures for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 also provided guidance on the derecognition of uncertain tax positions, financial statement classification, accounting for interest and penalties, accounting for interim periods and added new disclosure requirements.

In May 2007, the FASB issued FASB Staff Position ("FSP") No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," an amendment of FASB Interpretation FIN No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN No. 48-1") to clarify that a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits in accordance with paragraph 10(b) of that Interpretation if (a) the taxing authority has completed all of its required or expected examination procedures, (b) the enterprise does not intend to appeal or litigate any aspect of the tax position, and (c) it is considered remote that the taxing authority would reexamine the tax position. FIN No. 48-1 also conforms to the terminology used in FIN No. 48 to describe measurement and recognition to the conclusions reached in the FSP. FIN No. 48-1 is effective as of the same dates as FIN No. 48, with retrospective application required for entities that have not applied FIN No. 48 in a manner consistent with the provisions of the FSP.

Nathan's adopted the provisions of FIN No. 48 and FIN No. 48-1 on March 26, 2007 which resulted in a \$155 adjustment to increase tax liabilities and decrease opening retained earnings in connection with a cumulative effect of a change in accounting principle.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits excluding interest and penalties since the inception of FIN No. 48 on March 26, 2007 through March 30, 2008.

Balance at March 26, 2007	\$517
Additions based on tax positions taken in the current year	21
Reductions of tax positions taken in prior years	(72)
Unrecognized tax benefits, end of year	<u>\$466</u>

The amount of unrecognized tax benefits at March 30, 2008 was \$466 all of which would impact Nathan's effective tax rate, if recognized. Nathan's recognizes accrued interest and penalties associated with unrecognized tax benefits as part of the income tax

provision. As of March 30, 2008, the Company had \$307 accrued for the payment of interest and penalties. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Nathan's is subject to tax in the U.S. and various state and local jurisdictions. The Company is not currently under audit by the Internal Revenue Service but remains subject to examination for fiscal years 2005 through 2007. Nathan's is not currently under audit by any state and local jurisdictions but remains subject to examination for years open by statute to examination by taxing authorities by major jurisdictions are as follows:

Jurisdiction	Fiscal Year
Federal	2005
New York State	2005
New York City	2005

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

1. Stock Option Plans

On December 15, 1992, the Company adopted the 1992 Stock Option Plan (the "1992 Plan"), which provided for the issuance of incentive stock options ("ISOs") to officers and key employees and nonqualified stock options to directors, officers and key employees. Up to 525,000 shares of common stock were reserved for issuance for the exercise of options granted under the 1992 Plan. The 1992 Plan expired with respect to granting of new options on December 2, 2002.

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 were reserved for issuance upon the exercise of options granted under the 1998 Plan. As of March 30, 2008, no shares were available to be issued for future grants 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 were originally reserved for issuance upon the exercise of options granted and for future issuance in connection with awards under the 2001 Plan. As of March 25, 2007, there were 3,500 shares available to be issued in the future under this plan. On September 12, 2007, Nathan's shareholders approved certain modifications to the 2001 Plan, which increased the number of options available for future grant by 275,000 shares. On September 17, 2007, 110,000 stock options were granted and as of March 30, 2008, there were 168,500 shares available to be issued for future grants under the 2001 Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

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 in connection with awards under the 2002 Plan. As of March 30, 2008, there were 2,500 shares available to be issued for future grants under the 2002 Plan.

The 1998 Plan, the 2001 Plan and the 2002 Plan expire on April 5, 2008, June 13, 2011 and June 17, 2012, respectively, unless terminated earlier by the Board of Directors under conditions specified in the respective Plan.

The Company has outstanding 262,558 of stock options previously issued upon the acquisition of Miami Subs during the fiscal year ended March 26, 2000. These options have an exercise price of \$3.1875 and expire on September 30, 2009.

In general, options granted under the Company's stock incentive plans have terms of five or ten years and vest over periods of between three and five years. The Company has historically issued new shares of common stock for options that have been exercised and determined the grant date fair value of options and warrants granted using the Black-Scholes option valuation model.

2. Warrant

On July 17, 1997, the Company granted its Chairman and then Chief Executive Officer a warrant to purchase 150,000 shares of the Company's common stock at an exercise price of \$3.25 per share, representing the market price of the Company's common stock on the date of grant. The warrant was exercised in July 2007.

A summary of the status of the Company's stock options and warrants at March 30, 2008, March 25, 2007 and March 26, 2006 and changes during the fiscal years then ended is presented in the tables below:

	2008		2007		2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding—beginning of year	1,172,308	\$ 5.21	1,332,024	\$ 3.78	1,494,796	\$ 3.81
Granted	110,000	17.43	197,500	13.08	—	—
Expired	(8,500)	6.20	(4,000)	6.20	(2,690)	9.09
Exercised	(121,500)	3.59	(353,216)	3.69	(160,082)	4.01
Options outstanding—end of year	1,152,308	\$ 6.54	1,172,308	\$ 5.21	1,332,024	\$ 3.78
Options exercisable—end of year	884,308	\$ 4.02	943,141	\$ 3.48	1,247,025	\$ —
Weighted-average fair value of options granted		\$ 5.83		\$ 6.16		\$ —
Warrants outstanding—beginning of year	150,000	\$ 3.25	150,000	\$ 3.25	168,750	\$ 4.73
Exercised	(150,000)	(3.25)	—	—	(18,750)	16.55
Warrants outstanding—end of year	—	—	150,000	\$ 3.25	150,000	\$ 3.25
Warrants exercisable—end of year	—	—	150,000	\$ 3.25	150,000	\$ 3.25

At March 30, 2008, 171,000 common shares were reserved for future restricted stock or stock option grants, as detailed above.

During the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, 271,500, 308,784 and 160,082 stock options and warrants were exercised which aggregated proceeds of \$924, \$722 and \$642, respectively, to the Company.

The aggregate intrinsic values of the stock options exercised during the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006 are \$3,169, \$2,658 and \$1,015 respectively.

The following table summarizes information about stock options at March 30, 2008:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at March 30, 2008	1,152,308	\$6.54	3.67	\$8,521
Options exercisable at March 30, 2008	884,308	\$4.02	2.76	\$8,443
Exercise prices ranges from \$3.19 to \$17.43				

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, December 8, 1999, June 15, 2005 and June 4, 2008. Pursuant to the June 4, 2008 amendment, the final expiration date of the Rights was accelerated to June 4, 2008 thereby terminating the Rights. Each Right, as amended, entitled the registered holder thereof to purchase from the Company one share of the common stock at a price of \$4.00 per share, subject to adjustment for anti-dilution. New Common Stock certificates issued after June 20, 1995 upon transfer or new issuance of the common stock contained a notation incorporating the Rights Agreement by reference.

The Rights were not exercisable until the Distribution Date. The Distribution Date was 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. Prior to the June 4, 2008 amendment, the Rights were scheduled to expire on June 19, 2010.

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 had the ability to redeem the Rights in whole, but not in part, at a price of \$.001 per Right. In addition, the Rights Agreement, as amended, permitted 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 was exercised, the holder thereof, as such, had no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. The Company had reserved 9,501,491 shares of common stock for issuance upon exercise of the Rights.

At the time the Nathan’s Board of Directors approved the June 4, 2008 amendment of Nathan’s then-existing shareholder rights plan to accelerate the final expiration date of the common stock purchase rights to June 4, 2008, thereby terminating the existing rights, it also approved the adoption of a new stockholder rights plan (the “New Rights Plan”) under which all stockholders of record as of June 5, 2008 will receive rights to purchase shares of common stock (the “New Rights”). The New Rights Plan replaced and updated the Company’s then-existing rights plan.

The New Rights were distributed as a dividend. Initially, the New Rights will attach to, and trade with, the Company’s common stock. Subject to the terms, conditions and limitations of the New Rights Plan, the New Rights will become exercisable if (among other things) a person or group acquires 15% or more of the Company’s common stock. Upon such an event and payment of the purchase price of \$30 (the “New Right Purchase Price”), each New Right (except those held by the acquiring person or group) will entitle the holder to acquire one share of the Company’s common stock (or the economic equivalent thereof) or, if the then-current market price is less than the New Right Purchase Price, a number of shares of the Company’s common stock which at the time of the transaction has a market value equal to the New Right Purchase Price. Based on the market price of the Company’s common stock on June 4, 2008, the date the New Rights Plan was adopted, of \$13.41 per share, and due to the fact that the Company is not required to issue fractional shares, the current exchange ratio is two shares of common stock per New Right. The Company’s board of directors may redeem the New Rights prior to the time they are triggered. Upon adoption of the New Rights Plan, the Company reserved 16,589,516 shares of common stock for issuance upon exercise of the New Rights.

4. Stock Repurchase Program

Through March 30, 2008, Nathan’s purchased a total of 2,000,000 shares of common stock at a cost of approximately \$9,086 in completion of the second stock repurchase plan previously authorized by the Board of Directors. Of these repurchased shares, 108,900 shares were repurchased at a cost of \$1,928 during the year ended March 30, 2008. On November 5, 2007, Nathan’s Board of Directors authorized a third stock repurchase plan for the purchase of up to 500,000 shares of its common stock on behalf of the Company, under which there have been no purchases as of year ended March 30, 2008. Purchases may be made from time to time, depending on market conditions, in open market or privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

On June 11, 2008, Nathan's and Mutual Securities, Inc. ("MSI") entered into an agreement (the "10b5-1 Agreement") pursuant to which MSI has been authorized to purchase shares of the Company's common stock, par value \$.01 per share ("Common Stock") having a value of up to an aggregate \$6 million. The 10b5-1 Agreement was adopted under the safe harbor provided by Rule 10b5-1 of the Securities Exchange Act of 1934 in order to assist the Company in implementing its previously announced stock purchase plan for the purchase of up to 500,000 shares. There is no set time limit on the repurchases.

5. Employment Agreements

Effective January 1, 2007, Howard M. Lorber, previously, Chairman of the Board and Chief Executive Officer, assumed the newly created position of Executive Chairman of the Board of Nathan's and Eric Gatoff, previously Vice President and Corporate Counsel, became Chief Executive Officer of Nathan's.

In connection with the foregoing, the Company entered into an employment agreement with each of Messrs. Lorber (as amended, the "Lorber Employment Agreement") and Gatoff (the "Gatoff Employment Agreement"). Under the terms of the Lorber Employment Agreement, Mr. Lorber will serve as Executive Chairman of the Board from January 1, 2007 until December 31, 2012, unless his employment is terminated in accordance with the terms of the Lorber Employment Agreement. Pursuant to the Lorber Employment Agreement, Mr. Lorber receives a base salary of \$400, and will not receive a contractual bonus. The Lorber Employment Agreement provides for a three-year consulting period after the termination of employment during which Mr. Lorber will receive a consulting fee of \$200 per year in exchange for his agreement to provide no less than 15 days of consulting services per year, provided, Mr. Lorber is not required to provide more than 50 days of consulting services per year. The Lorber Employment Agreement provides Mr. Lorber with the right to participate in employment benefits offered to other Nathan's executives. During and after the contract term, Mr. Lorber is subject to certain confidentiality, non-solicitation and non-competition provisions in favor of the Company.

In connection with Mr. Lorber's prior employment agreement dated January 1, 2005, we issued to Mr. Lorber 50,000 shares of restricted common stock, which vest ratably over the 5 years. A charge of \$363 based on the fair market value of the Company's common stock of \$7.25 on grant date has been recorded to deferred compensation and is being amortized to earnings ratably over the vesting period. As of March 30, 2008, March 25, 2007 and March 26, 2006, 40,000, 30,000 and 20,000 shares have been vested with 10,000, 20,000 and 30,000 shares non-vested, respectively.

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

Under the terms of the Gatoff Employment Agreement, Mr. Gatoff will serve as Chief Executive Officer from January 1, 2007 until December 31, 2008, which period shall extend for additional one-year periods unless either party delivers notice of non-renewal no less than 180 days prior to the end of the term then in effect. Pursuant to the agreement, Mr. Gatoff will receive a base salary of \$225 and an annual bonus equal in an amount of up to 100% of his base salary, depending upon the Company's achievement of performance goals established and agreed to by the Compensation Committee and Mr. Gatoff for each fiscal year during the employment term, and further, that Mr. Gatoff will be entitled to a minimum bonus of 50% of his base salary for the first two years of the Gatoff Employment Agreement. The Gatoff agreement provides for an automobile allowance and the right of Mr. Gatoff to participate in employment benefits offered to other Nathan's executives. During and after the contract term, Mr. Gatoff is subject to certain confidentiality, non-solicitation and non-competition provisions in favor of the Company.

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 automatically extends for successive one-year periods unless notice of non-renewal is provided in

accordance with the agreement. Consequently, the employment agreement has been extended annually through December 31, 2008, based on the original terms, and no non-renewal notice has been given as of June 11, 2008. The agreement provides for annual compensation of \$289 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.

As a result of the sale of Miami Subs, the employment agreement between Miami Subs and its then President and Chief Operating Officer (who also serves as an executive officer of Nathan's), was cancelled and a new employment agreement was entered into with Nathan's effective May 31, 2007. The agreement provides for annual compensation of \$210 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 June 11, 2008. Consequently, the employment agreement has been extended through September 30, 2009. The agreement includes a provision under which the officer has the right to terminate the agreement and receive payment equal to approximately three times his annual compensation upon a change in control, as defined. In the event a non-renewal 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 employee of Nathan's entered into a change of control agreement effective May 31, 2007 for annual compensation of \$136 per year. The agreement additionally includes a provision under which the employee has the right to terminate the agreement and receive payment equal to approximately three times his 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 on up to 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 20% of their total annual salary. The Company matches 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, 2008, March 25, 2007 and March 26, 2006 were \$29, \$32, and \$26, 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 M—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, 2008, the Company has noncancelable operating lease commitments, net of certain sublease rental income, as follows:

	Lease Commitments	Sublease Income	Net Lease Commitments
2009	\$ 1,551	\$ 313	\$ 1,238
2010	1,329	366	963
2011	809	258	551
2012	601	196	405
2013	544	166	378
Thereafter	7,597	72	7,525
	<u>\$12,431</u>	<u>\$1,371</u>	<u>\$11,060</u>

Aggregate rental expense, net of sublease income, under all current leases amounted to \$1,204, \$1,174, and \$1,179 for the fiscal years ended March 30, 2008, March 25, 2007, and March 26, 2006, respectively.

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, which is inclusive of common area maintenance charges, was approximately \$59, \$70 and \$73 for the fiscal years ended March 30, 2008, March 25, 2007, and March 26, 2006 respectively.

The Company also owns or leases sites, which it in turn subleases to franchisees, which expire on various dates through 2010 exclusive of renewal options. The Company remains liable for all lease costs when properties are subleased to franchisees.

The Company also subleases a location to a third party. This sublease provides for minimum annual rental payments by the Company aggregating approximately \$135 and expires in 2013 exclusive of renewal options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

The Company entered into a commitment to purchase 1,785,000 pounds of hot dogs for \$2,740 from its primary hot dog manufacturer. Nathan's has the right to order this product between April through August 2008. The hot dogs to be purchased represent approximately 36% of Nathan's estimated usage during the period of the commitment.

2. Contingencies

The Company and its subsidiaries are from time to time involved in ordinary and routine litigation. Management presently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, cash flows or results of operations. Nevertheless, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages and, in such event, could result in a material adverse impact on the Company's results of operations for the period in which the ruling occurs.

The Company is also involved in the following legal proceedings:

On March 20, 2007, a personal injury lawsuit was initiated seeking unspecified damages against the Company's subtenant and the Company's master landlord at a leased property in Huntington, New York. The claim relates to damages suffered by an individual as a result of an alleged "trip and fall" on the sidewalk in front of the leased property, maintenance of which is the subtenant's responsibility. Although the Company was not named as a defendant in the lawsuit, under its master lease agreement the Company may have an obligation to indemnify the master landlord in connection with this claim. The Company did not maintain its own insurance on the property concerned at the time of the incident; however, the Company is named as an additional insured under its subtenant's liability policy. Accordingly, if the master landlord is found liable for damages and seeks indemnity from the Company, the Company believes that it would be entitled to coverage under the subtenant's insurance policy. Additionally, under the terms of the sublease, the subtenant is required to indemnify the Company, regardless of insurance coverage.

The Company is party to a License Agreement with SMG, Inc. ("SMG") dated as of February 28, 1994, as amended (the "License Agreement") pursuant to which: (i) SMG acts as the Company's exclusive licensee for the manufacture, distribution, marketing and sale of packaged Nathan's Famous frankfurter product at supermarkets, club stores and other retail outlets in the United States; and (ii) the Company has the right, but not the obligation, to require SMG to produce frankfurters for the Company's Nathan's Famous restaurant system and Branded Products Program. On July 31, 2007, the Company provided notice to SMG that the Company has elected to terminate the License Agreement, effective July 31, 2008 (the "Termination Date"), due to SMG's breach of certain provisions of

the License Agreement. SMG has disputed that a breach has occurred and has commenced, together with certain of its affiliates, an action in state court in Illinois seeking, among other things, a declaratory judgment that SMG did not breach the License Agreement. The Company's filed its own action on August 2, 2007, in New York State court seeking a declaratory judgment that SMG has breached the License Agreement and that the Company has properly terminated the License Agreement. On January 23, 2008, the New York court granted SMG's motion to dismiss the Company's case in New York on the basis that the dispute was already the subject of a pending lawsuit in Illinois. The Company has answered SMG's complaint and asserted its own counterclaims which seek, among other things, a declaratory judgment that SMG did breach the License Agreement and that the Company has properly terminated the License Agreement. SMG has also asked the Illinois court for a preliminary injunction to prevent the Company from effectuating the termination of the License Agreement prior to the case being adjudicated. The parties are currently proceeding with the discovery process.

3. Guarantees

At the time of the sale of Miami Subs (Note H), a severance agreement, previously entered into between Miami Subs and one executive of Miami Subs, remained in force along with the guaranty by Nathan's of Miami Subs' obligations under that agreement. The agreement provided for a severance payment of \$115 payable in six (6) monthly installments and payment for post-employment health benefits for the employee and dependants for the maximum period permitted under Federal Law. The executive terminated his employment with Miami Subs, effective October 5, 2007 and agreed to receive his severance payment over a 56-week period. Nathan's has the right to seek reimbursement from Miami Subs in the event that Nathan's must make payments under the guarantee of the agreement. Nathan's initially recorded a liability of \$115, for this guarantee at the date of sale, of which \$66 remains outstanding at March 30, 2008, due to payments made by Miami Subs. Nathan's has not been required to make any payments under this guarantee.

Note N—Related Party Transactions

An accounting firm of which Mr. Raich, who serves on Nathan's Board of Directors serves as Managing Partner, received ordinary tax preparation and other consulting fees of \$182, \$128, and \$108 for the fiscal years ended March 30, 2008, March 25, 2007 and March 26, 2006, respectively.

A firm which Mr. Lorber serves as a consultant to (and, prior to January 2005, was the Chairman of), and the firm's affiliates, received ordinary and customary insurance commissions aggregating approximately \$12, \$23, and \$25 for the fiscal years ended March 30, 2008, March 25, 2007, and March 26, 2006, respectively.

Note O—Quarterly Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2008				
Total revenues ^(a)	\$12,779	\$14,062	\$10,280	\$10,274
Gross profit ^{(a)(b)}	2,393	3,274	1,892	1,630
Net income	3,152 ^(d)	1,774	877	752
Per share information				
Net income per share				
Basic ^(c)	\$.52	\$.29	\$.14	\$.12
Diluted ^(c)	\$.48	\$.27	\$.14	\$.12
Shares used in computation of net income per share				
Basic ^(c)	6,018,000	6,119,000	6,092,000	6,109,000
Diluted ^(c)	6,499,000	6,562,000	6,492,000	6,457,000
Fiscal Year 2007				
Total revenues ^(a)	\$11,598	\$12,534	\$ 9,875	\$ 8,962
Gross profit ^{(a)(b)}	2,543	3,325	2,006	1,471
Net income	1,396	1,844 ^(e)	1,061	1,242
Per share information				
Net income per share				
Basic ^(c)	\$.24	\$.32	\$.18	\$.21
Diluted ^(c)	\$.22	\$.30	\$.17	\$.19
Shares used in computation of net income per share				
Basic ^(c)	5,733,000	5,773,000	5,892,000	5,945,000
Diluted ^(c)	6,316,000	6,227,000	6,401,000	6,430,000

(a) Total revenues and gross profit were adjusted from amounts previously reported on Forms 10-Q to reflect a reclassification of continuing operations to discontinued operations in the fiscal years shown.

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

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

(d) Includes gains of disposal of discontinued operations, net of tax, of \$1,576.

(e) Includes gains of disposal of discontinued operations, net of tax, of \$239.

Note P—Subsequent Events—Unaudited

1. Sale of Roasters

On April 23, 2008, Nathan's completed the sale of its wholly-owned subsidiary, NF Roasters Corp. to Roasters Asia Pacific (Cayman) Limited, its Master Developer of franchised Kenny Rogers Roasters restaurants in Malaysia and certain other foreign territories. The purchase price was approximately \$4,000 in cash plus certain accruals.

In connection with the sale, NF Roasters Corp. entered into a license agreement with a subsidiary of Nathan's, pursuant to which NF Roasters Corp. licensed to the Nathan's subsidiary certain intellectual property necessary for Nathan's to continue to make available "Kenny Rogers" products at existing Nathan's Famous and Miami Subs restaurants without the payment of royalties by either party.

Based upon SFAS No. 144, the Company has assessed the measurement date in accounting for the sale transaction as April 23,

2008, which represents the date on which Board approval was obtained by Management.

The following is a summary of the assets and liabilities as of March 30, 2008 of NF Roasters that were sold:

Cash	\$ 10 ^(a)
Accounts receivable, net	3
Deferred income taxes	229
Intangible assets, net	394
Other assets, net	30
Total assets sold	666
Accrued expenses	14 ^(a)
Other liabilities	340
Total liabilities sold	354
Net assets sold	\$312

(a) Includes unexpended marketing funds of \$10.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(in thousands, except share and per share amounts) March 30, 2008, March 25, 2007 and March 26, 2006

2. Other

On June 4, 2008, the Company approved the amendment of its existing shareholder rights plan to accelerate the final expiration date of the common stock purchase rights to June 4, 2008, thereby terminating the existing rights, as well as the adoption of a new stockholder rights plan (the “New Rights Plan”) under which all stockholders of record as of June 5, 2008 will receive rights to purchase shares of common stock (the “Rights”). The New Rights Plan will replace and update the Company’s existing rights plan, which was in place since 1995, and which was previously scheduled to expire on June 19, 2010 (See Note L-3).

On June 11, 2008, Nathan’s and Mutual Securities, Inc. (“MSI”) entered into an agreement (the “10b5-1 Agreement”) pursuant to which MSI has been authorized to purchase shares of the Company’s common stock, par value \$.01 per share (“Common Stock”) having a value of up to an aggregate \$6 million. The 10b5-1 Agreement was adopted under the safe harbor provided by Rule 10b5-1 of the Securities Exchange Act of 1934 in order to assist the Company in implementing its previously announced stock purchase plan for the purchase of up to 500,000 shares. There is no set time limit on the repurchases.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2008 and March 25, 2007, and the related consolidated statements of earnings, stockholders’ equity and cash flows for the fifty-three weeks ended March 30, 2008 and fifty-two weeks ended March 25, 2007 and March 26, 2006. 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 the standards of the Public Company Accounting Oversight Board (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 also 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, 2008 and March 25, 2007, and the results of their operations and their cash flows for the fifty-three weeks ended March 30, 2008 and fifty-two

weeks ended March 25, 2007 and March 26, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B of the notes to consolidated financial statements, on March 27, 2006 the Company has adopted Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment and on March 26, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes.”

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nathan’s Famous, Inc. and subsidiaries’ internal control over financial reporting as of March 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 11, 2008 expressed an unqualified opinion thereon.



GRANT THORNTON LLP
Melville, New York
June 11, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Nathan's Famous, Inc. (a Delaware Corporation) and subsidiaries' (the "Company") internal control over financial reporting as of March 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, Nathan's Famous, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of March 30, 2008 and March 25, 2007, and the related consolidated statements of earnings, stockholders' equity and cash flows for the fifty-three weeks ended March 30, 2008 and fifty-two weeks ended March 25, 2007 and March 26, 2006 and our report dated June 11, 2008 expressed an unqualified opinion thereon and contains an explanatory paragraph related to the adoption of Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment on March 27, 2006 and Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes" on March 26, 2007.



GRANT THORNTON LLP
Melville, New York
June 11, 2008

MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Common Stock Prices

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

	High	Low
Fiscal year ended March 30, 2008		
First quarter	\$15.79	\$14.16
Second quarter	19.20	15.01
Third quarter	17.87	16.25
Fourth quarter	17.86	13.03
Fiscal year ended March 25, 2007		
First quarter	\$13.66	\$11.94
Second quarter	13.50	12.28
Third quarter	14.65	12.84
Fourth quarter	15.44	14.01

At June 5, 2008, the closing price per share for our common stock, as reported by Nasdaq was \$13.83.

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 any cash dividends in the future will be dependent upon our earnings and financial requirements.

Shareholders

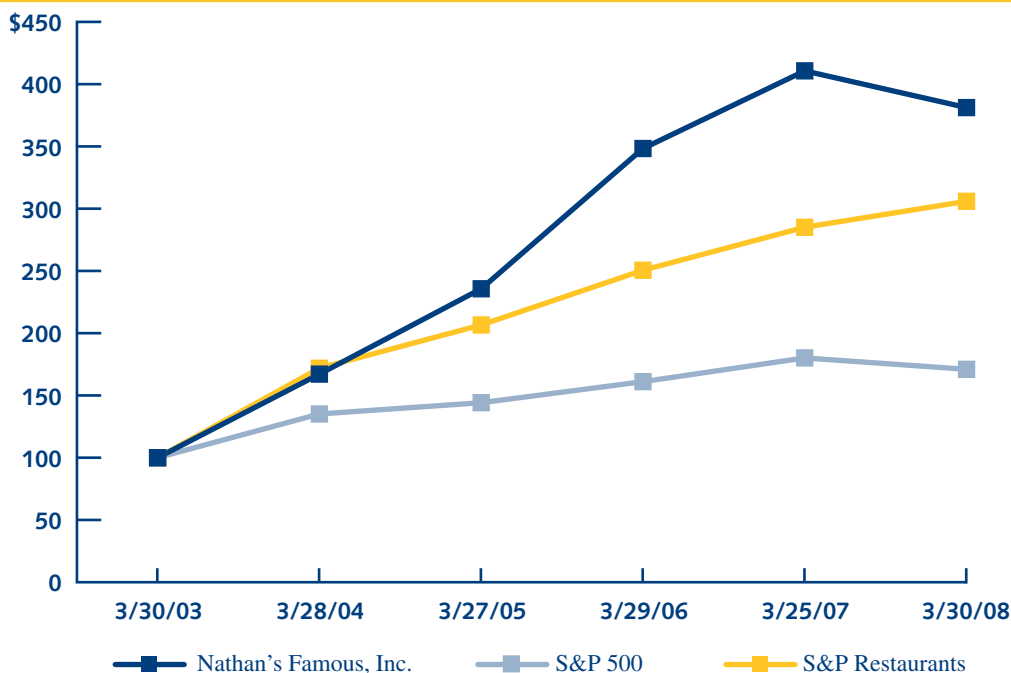
As of June 5, 2008, we had approximately 751 shareholders of record, excluding shareholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers.

Annual Shareholders' Meeting

The Annual Meeting of Shareholders of the Company will be held at 10:00 a.m., EST on Tuesday, September 9, 2008, in the Conference Room on the lower level of 1400 Old Country Road, Westbury, New York.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*

Among Nathan's Famous, Inc., the S&P 500 Index and the S&P Restaurants Index



*\$100 invested on 3/30/03 in stock or 3/31/03 in index-including reinvestment of dividends. Indexes calculated on month-end basis.

CORPORATE DIRECTORY

List of Directors

Howard M. Lorber
*Executive Chairman of the Board,
Nathan's Famous, Inc.*

Eric Gatoff
*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 S. Genson
President,
Motorsport Investments

A.F. Petrocelli
*Chairman, President &
Chief Executive Officer,
United Capital Corp.*

Charles Raich
*Managing Partner,
Raich, Ende, Malter & Co. LLP*

List of Officers

Howard M. Lorber
Executive Chairman of the Board

Eric Gatoff
Chief Executive Officer

Wayne Norbitz
President & Chief Operating Officer

Donald L. Perlyn
Executive Vice President

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

Randy K. Watts
Vice President—Franchise Operations

Donald P. Schedler
*Vice President—Development,
Architecture & Construction*

Independent Registered Public Accounting Firm

Grant Thornton LLP
445 Broadhollow Road
Melville, New York 11747

Corporate Counsel

Farrell Fritz, PC
1320 RexCorp Plaza
Uniondale, New York 11556

Transfer Agent

American Stock Transfer
& Trust Company
59 Maiden Lane
New York, New York 10038

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

Nathan's
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