

## *To Our Shareholders*

Net loss for the thirty-nine weeks ended December 29, 2002 was \$11,988,000 or \$1.92 per diluted share as compared to net income of \$1,879,000 or \$0.27 per diluted share in the comparable prior period.

In the first quarter of fiscal 2003, Nathan's adopted SFAS No. 142, "Accounting for Goodwill and Other Intangibles". In connection with the implementation of this new standard, goodwill and certain other intangible assets were written down by \$12,338,000 or \$1.97 per diluted share, net of tax.

Income from continuing operations before income taxes for the thirty-nine weeks ended December 29, 2002 was \$754,000 as compared to \$3,488,000 for the thirty-nine weeks ended December 23, 2001. Income from continuing operations was \$444,000 or \$0.07 per diluted share for the thirty-nine weeks ended December 29, 2002 as compared to \$1,961,000 or \$0.28 per diluted share for the thirty-nine weeks ended December 23, 2001.

During the fiscal 2003 period, Nathan's recorded impairment charges totaling \$1,013,000 relating to four under-performing restaurants and four notes receivable. Nathan's also recorded additional depreciation expense of approximately \$422,000 in connection with the early lease terminations of its restaurants operating within eight Home Depot Improvement Centers.

During the fiscal 2002 period Nathan's results included gains of \$957,000 from the sale of two restaurants and the reversal of a previously recorded litigation reserve of \$210,000 in connection with the Company's successful appeal.

Total revenues were \$29,169,000 during the thirty-nine weeks ended December 29, 2002 as compared to \$32,905,000 during the thirty-nine weeks ended December 23, 2001. Systemwide sales of the Company's brands, including supermarket sales by the Company's hot dog licensee, were \$190,541,000 for the thirty-nine weeks ended December 29, 2002, as compared to \$203,823,000 for the thirty-nine weeks ended December 23, 2001.

Net loss for the thirteen weeks ended December 29, 2002 was \$106,000 or \$0.02 per diluted share as compared to net income of \$263,000 or \$0.04 per diluted share in the comparable prior period. Loss from continuing operations was \$52,000 or \$0.01 per diluted share for the thirteen weeks ended December 29, 2002 as compared to income from continuing operations of \$304,000 or \$0.05 per diluted share for the thirteen weeks ended December 23, 2001. Total revenues were \$8,236,000 during the thirteen weeks ended December 29, 2002 as compared to \$10,001,000 during the thirteen weeks ended December 23, 2001.

Fewer Company-owned restaurants operated during the 2003 fiscal period, which lowered revenues by approximately \$2,483,000 which had no effect on restaurant operating profits as compared to the fiscal 2002 period.

Lower revenues from franchising activities was due to lower franchise sales and royalties primarily in the Southern Florida market and lower co-branding fees earned as compared to the fiscal 2002 period, which included the Company's one-time co-branding initiative within its franchise system.

The Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, has continued to grow, generating sales of approximately \$4,894,000 during the fiscal 2003 period as compared to \$3,534,000 during the fiscal 2002 period.

The Company sold one restaurant to a franchisee, two restaurants to non-franchisees and closed two company-owned restaurants due to early lease terminations during the fiscal 2003 period. Nathan's continues to seek to franchise three of its company-owned restaurants.

The Company completed the repurchase of 1 million shares of its common stock pursuant to its share repurchase program adopted on September 14, 2001. The Company has also repurchased an additional 475,638 shares pursuant to its share repurchase program adopted on October 7, 2002 to repurchase up to an additional 1 million shares of its common stock.

At December 29, 2002, Nathan's Famous, Inc. consisted of 351 franchised or licensed units, 18 company-owned units and over 2,000 Branded Product points of sale, located within forty-one states, the District of Columbia and thirteen foreign countries featuring the Nathan's, Miami Subs and Kenny Rogers Roasters brands.

Sincerely,

Howard M. Lorber  
Chairman of the Board  
and Chief Executive Officer

Wayne Norbitz  
President  
and Chief Operating Officer

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Consolidated Statements of Earnings Data**

	<u>Thirteen weeks Ended</u>		<u>Thirty-nine weeks Ended</u>	
	(unaudited)		(unaudited)	
	<u>Dec. 29, 2002</u>	<u>Dec 23, 2001</u>	<u>Dec. 29, 2002</u>	<u>Dec 23, 2001</u>
Total revenues	\$ 8,236,000	\$ 10,001,000	\$ 29,169,000	\$ 32,905,000
(Loss) income from continuing operations	\$ (52,000)	\$ 304,000	\$ 444,000	\$ 1,961,000
Loss from discontinued operations	\$ (54,000)	\$ (41,000)	\$ (94,000)	\$ (82,000)
Cumulative effect of change in accounting principle, net of income taxes of \$854,000	<u>\$ —</u>	<u>\$ —</u>	<u>\$(12,338,000)</u>	<u>\$ —</u>
Net (loss) income	<u>\$ (106,000)</u>	<u>\$ 263,000</u>	<u>\$(11,988,000)</u>	<u>\$ 1,879,000</u>
Basic (loss) income per share				
(Loss) income from continuing operations	\$ (0.01)	\$ 0.05	\$ 0.07	\$ 0.28
Loss income from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(2.02)</u>	<u>—</u>
Net (loss) income	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ (1.96)</u>	<u>\$ 0.27</u>
Diluted (loss) income per share (1)				
(Loss) income from continuing operations	\$ (0.01)	\$ 0.05	\$ 0.07	\$ 0.28
Loss income from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(1.97)</u>	<u>—</u>
Net (loss) income	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ (1.92)</u>	<u>\$ 0.27</u>
Weighted average shares used in computing per share information				
Basic	<u>5,878,000</u>	<u>7,038,000</u>	<u>6,113,000</u>	<u>7,056,000</u>
Diluted (1)	<u>5,878,000</u>	<u>7,062,000</u>	<u>6,256,000</u>	<u>7,075,000</u>

(1) Common stock equivalents aggregating 89,000 shares have been excluded from the Diluted EPS calculation for the thirteen week period ended December 29, 2002 as the impact of their inclusion would have been anti-dilutive.

## Summary Balance Sheet Data

	Dec. 29, <u>2002</u> (Unaudited)	March 31, <u>2002</u>
Assets		
Current assets	\$ 12,567,000	\$ 18,581,000
Property and equipment, net	7,504,000	8,925,000
Notes receivable, net	1,662,000	2,277,000
Intangible assets, net	3,722,000	17,123,000
Other assets	<u>2,793,000</u>	<u>1,839,000</u>
Total assets	<u>\$ 28,248,000</u>	<u>\$ 48,745,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 6,180,000	\$ 9,016,000
Notes payable and capitalized lease obligations less current maturities	1,097,000	1,220,000
Other long-term obligations	1,838,000	2,364,000
Stockholders' equity	<u>19,133,000</u>	<u>36,145,000</u>
Total liabilities and stockholders' equity	<u>\$ 28,248,000</u>	<u>\$ 48,745,000</u>