

## *To Our Shareholders*

Management is extremely pleased with the results attained for the thirty-nine weeks ended December 26, 2004. All of our profit centers have experienced improved profitability, despite the impact of higher commodity costs, leading to our most successful thirty-nine week period since the Company's 1993 Initial Public Offering.

Net income for the thirty-nine weeks ended December 26, 2004 increased by 37.0% to \$2,516,000 or \$0.48 per basic share and \$0.42 per diluted share as compared to \$1,837,000 or \$0.35 per basic share and \$0.33 per diluted share for the thirty-nine weeks ended December 28, 2003. Earnings from continuing operations were \$2,525,000 or \$0.48 per basic share and \$0.42 per diluted share for the thirty-nine weeks ended December 26, 2004 as compared to \$1,851,000 or \$0.35 per basic share and \$0.33 per diluted share for the thirty-nine weeks ended December 28, 2003. Total revenue from continuing operations increased by 12.5% to \$26,464,000 during the thirty-nine weeks ended December 26, 2004 as compared to \$23,517,000 during the thirty-nine weeks ended December 28, 2003.

Net income for the thirteen weeks ended December 26, 2004 increased by 100.8% to \$476,000 or \$0.09 per basic share and \$0.08 per diluted share as compared to \$237,000 or \$0.04 per basic and diluted share for the thirteen weeks ended December 28, 2003. Earnings from continuing operations were \$476,000 or \$0.09 per basic share and \$0.08 per diluted share for the thirteen weeks ended December 26, 2004 as compared to \$248,000 or \$0.04 per basic and diluted share for the thirteen weeks ended December 28, 2003. Total revenue from continuing operations increased by 16.1% to \$7,300,000 during the thirteen weeks ended December 26, 2004 as compared to \$6,290,000 during the thirteen weeks ended December 28, 2003.

Last year's franchising of five Company-owned restaurants during the thirty-nine weeks ended December 28, 2003 lowered restaurant sales by approximately \$1,237,000 and improved the Company's operating profit before taxes by approximately \$162,000 (including royalties of \$37,000 from the franchised locations and improved restaurant operating profits of \$125,000) during the thirty-nine weeks ended December 26, 2004, as compared to the same fiscal period last year.

The Branded Product Program, featuring the sale of Nathan's hot dogs to the foodservice industry, has continued its growth, generating sales of approximately \$7,939,000 during the thirty-nine weeks ended December 26, 2004 as compared to \$5,803,000 in the thirty-nine weeks ended December 28, 2003, representing a 36.8% increase.

Restaurant franchising revenues increased by 7.0% or \$331,000 to \$5,084,000 during the thirty nine weeks ended December 26, 2004.

License royalties increased by 7.6% or \$177,000 to \$2,507,000 from the sale of Nathan's hot dogs and other Nathan's products during the thirty-nine weeks ended December 26, 2004.

Sales were \$1,141,000 in connection with the QVC marketing program during the thirty-nine weeks ended December 26, 2004. Nathan's was featured as a QVC "Today's Special Value" on May 20, 2004.

Results included a state tax refund from the completion of a prior year's audit of approximately \$81,000, net of applicable federal income tax. Excluding the tax refund, net income would have been \$2,435,000 or \$0.46 per basic share and \$0.41 per diluted share for the thirty-nine weeks ended December 26, 2004 and \$395,000 or \$0.07 per basic share and \$0.06 per diluted share for the thirteen weeks ended December 26, 2004. Nathan's effective tax rate was lowered by 2.0% and 12.4% for the thirty-nine and thirteen week periods ended December 26, 2004, respectively.

It is very gratifying to realize the success of our strategy to market the Nathan's brand and implement a points of distribution strategy. We have achieved continuous growth of our Branded Product Program while furthering our market penetration of the Nathan's brand through restaurant franchising and retail licensing.

At December 26, 2004, Nathan's Famous, Inc. consisted of 352 franchised or licensed units, six company-owned units and more than 4,800 Branded Product points of sale, located in 46 states, the District of Columbia and 13 foreign countries featuring the Nathan's, Miami Subs and Kenny Rogers Roasters brands. For additional information about Nathan's, Kenny Rogers Roasters or Miami Subs please visit our website at [www.nathansfamous.com](http://www.nathansfamous.com)

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> (Unaudited)		<u>Thirty-nine weeks Ended</u> (Unaudited)	
	<u>Dec. 26, 2004</u>	<u>Dec. 28, 2003</u>	<u>Dec. 26 2004</u>	<u>Dec. 28, 2003</u>
Total revenues from continuing operations	\$ 7,300,000	\$ 6,290,000	\$ 26,464,000	\$ 23,517,000
Income from continuing operations	\$ 476,000	\$ 248,000	\$ 2,525,000	\$ 1,851,000
(Loss) income from discontinued operations	<u>\$ --</u>	<u>\$ (11,000)</u>	<u>\$ (9,000)</u>	<u>\$ (14,000)</u>
Net income	<u>\$ 476,000</u>	<u>\$ 237,000</u>	<u>\$ 2,516,000</u>	<u>\$ 1,837,000</u>
Basic income (loss) per share				
Income from continuing operations	\$ 0.09	\$ 0.04	\$ 0.48	\$ 0.35
(Loss) income from discontinued operations	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Net income	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.48</u>	<u>\$ 0.35</u>
Diluted income (loss) per share				
Income from continuing operations	\$ 0.08	\$ 0.04	\$ 0.42	\$ 0.33
(Loss) income from discontinued operations	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Net income	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.42</u>	<u>\$ 0.33</u>
Weighted average shares used in computing per share information				
Basic	<u>5,352,000</u>	<u>5,286,000</u>	<u>5,256,000</u>	<u>5,323,000</u>
Diluted	<u>6,173,000</u>	<u>5,742,000</u>	<u>6,003,000</u>	<u>5,604,000</u>

**NATHAN'S FAMOUS, INC. AND SUBSIDIARIES**  
**Summary Balance Sheet Data**

	Dec. 26, <u>2004</u> (Unaudited)	March 28, <u>2004</u>
Assets		
Current assets	\$ 20,049,000	\$ 16,317,000
Property and equipment, net	4,761,000	5,094,000
Notes receivable, net	157,000	313,000
Intangible assets, net	2,961,000	3,158,000
Other assets	<u>2,694,000</u>	<u>2,702,000</u>
Total assets	<u>\$ 30,622,000</u>	<u>\$ 27,584,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 7,203,000	\$ 7,132,000
Notes payable and capitalized lease obligations less current maturities	736,000	866,000
Other long-term obligations	1,796,000	2,234,000
Stockholders' equity	<u>20,887,000</u>	<u>17,352,000</u>
Total liabilities and stockholders' equity	<u>\$ 30,622,000</u>	<u>\$ 27,584,000</u>