

To Our Shareholders

Net loss for the twenty-six weeks ended September 29, 2002 was \$11,882,000 or \$1.91 per share as compared to net income of \$1,616,000 or \$0.23 per 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 \$1.98 per share, net of tax.

Income before cumulative effect of change in accounting principle was \$456,000 or \$0.07 per share for the twenty-six weeks ended September 29, 2002 as compared to \$1,616,000 or \$0.23 per share for the twenty-six weeks ended September 23, 2001. Operating income for the twenty-six weeks ended September 29, 2002 was \$773,000 as compared to \$2,882,000 for the twenty-six weeks ended September 23, 2001.

During the fiscal 2003 period, Nathan's recorded impairment charges totaling \$741,000 relating to three under-performing restaurants and notes receivable and also recorded additional depreciation expense of approximately \$102,000 in connection with the early lease terminations of its restaurants operating within 8 Home Depot Improvement Centers.

Total revenues were \$21,626,000 during the twenty-six weeks ended September 29, 2002 as compared to \$23,661,000 during the twenty-six weeks ended September 23, 2001. Systemwide sales of the Company's brands, including supermarket sales by the Company's hot dog licensee, were \$130,183,000 for the twenty-six weeks ended September 29, 2002, as compared to \$143,961,000 for the twenty-six weeks ended September 23, 2001.

Net income for the thirteen weeks ended September 29, 2002 was \$110,000 or \$0.02 per share as compared to \$654,000 or \$0.09 per share in the comparable prior period. Total revenues were \$10,712,000 during the thirteen weeks ended September 29, 2002 as compared to \$11,785,000 during the thirteen weeks ended September 23, 2001.

Fewer Company-owned restaurants operated during the 2003 fiscal period, which lowered revenues by approximately \$1,611,000 and lowered restaurant operating profits by approximately \$74,000 (excluding royalties earned from two Company-owned restaurants that were franchised) as compared to the fiscal 2002 period.

Lower revenues from franchising activities due to lower franchise sales and royalties, fewer new store openings and lower co-branding fees earned as compared to the fiscal 2002 period from its co-branding rollout 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 \$3,482,000 during the fiscal 2003 period as compared to \$2,491,000 during the fiscal 2002 period.

Nathan's realized a gain of \$135,000 from the early termination of a sales agreement for its Branded Product Program during the fiscal 2003 period.

Nathan's results for the fiscal 2002 period included the reversal of a previously recorded litigation reserve of \$210,000 in connection with the Company's successful appeal and a gain of \$93,000 from the sale of a restaurant.

The Company has sold two restaurants to non-franchisees and entered into an agreement 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 189,126 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 September 29, 2002, Nathan's Famous, Inc. consisted of 350 franchised or licensed units, 21 company-owned units and approximately 1,900 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>Twenty-six weeks Ended</u>	
	(unaudited)		(unaudited)	
	<u>Sept. 29, 2002</u>	<u>Sept 23, 2001</u>	<u>Sept. 29, 2002</u>	<u>Sept 23, 2001</u>
Total revenues	\$ 10,712,000	\$ 11,785,000	\$ 21,626,000	\$ 23,661,000
Operating income	\$ 186,000	\$ 1,169,000	\$ 773,000	\$ 2,882,000
Income before cumulative effect of change in accounting principle	\$ 186,000	\$ 1,169,000	\$ 456,000	\$ 1,616,000
Cumulative effect of change in accounting principle, net of income taxes of \$855,000	<u>\$ —</u>	<u>\$ —</u>	<u>\$(12,338,000)</u>	<u>\$ —</u>
Net (loss) income	<u>\$ 110,000</u>	<u>\$ 654,000</u>	<u>\$(11,882,000)</u>	<u>\$ 1,616,000</u>
Basic (loss) income per share				
Income before cumulative effect of change in accounting principle	\$ 0.02	\$ 0.09	\$ 0.07	\$ 0.23
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(1.98)</u>	<u>—</u>
Net (loss) income	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ (1.91)</u>	<u>\$ 0.23</u>
Diluted (loss) income per share (1)				
Income before cumulative effect of change in accounting principle	\$ 0.02	\$ 0.09	\$ 0.07	\$ 0.23
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(1.98)</u>	<u>—</u>
Net (loss) income	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ (1.91)</u>	<u>\$ 0.23</u>
Weighted average shares outstanding				
Basic	<u>6,105,000</u>	<u>7,065,000</u>	<u>6,230,000</u>	<u>7,065,000</u>
Diluted (1)	<u>6,229,000</u>	<u>7,080,000</u>	<u>6,230,000</u>	<u>7,082,000</u>

(1) Common stock equivalents aggregating 171,000 shares have been excluded from the Diluted EPS calculation for the twenty-six week period ended September 29, 2002 as the impact of their inclusion would have been anti-dilutive.

Summary Balance Sheet Data

	Sept. 29, <u>2002</u> (Unaudited)	March 31, <u>2002</u>
Assets		
Current assets	\$ 14,630,000	\$ 18,581,000
Property and equipment, net	8,097,000	8,925,000
Notes receivable, net	1,807,000	2,277,000
Intangible assets, net	3,791,000	17,123,000
Other assets	<u>2,844,000</u>	<u>1,839,000</u>
Total assets	<u>\$ 31,169,000</u>	<u>\$ 48,745,000</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 7,149,000	\$ 9,016,000
Notes payable and capitalized lease obligations less current maturities	1,140,000	1,220,000
Other long-term obligations	2,087,000	2,364,000
Stockholders' equity	<u>20,793,000</u>	<u>36,145,000</u>
Total liabilities and stockholders' equity	<u>\$ 31,169,000</u>	<u>\$ 48,745,000</u>