

To Our Shareholders

Net loss for the quarter ended June 30, 2002 was \$11,992,000 or \$1.89 per basic and diluted share as compared to net income of \$962,000 or \$0.14 per basic and diluted share in the comparable prior period.

In the first quarter 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 \$1.94 per share, net of tax.

Earnings before cumulative effect of change in accounting principle was \$346,000 or \$0.05 per share for the quarter ended June 30, 2002 as compared to \$962,000 or \$0.14 per share for the quarter ended June 24, 2001. Operating income for the quarter ended June 30, 2002 was \$587,000 as compared to \$1,676,000 for the quarter ended June 24, 2001.

During the first quarter fiscal 2003, Nathan's realized a gain of \$135,000 from the early termination of a sales agreement for its Branded Product Program. Operating income for the first quarter fiscal 2002 included the reversal of a previously recorded litigation reserve of \$210,000 in connection with the Company's successful appeal and a gain of \$96,000 from the sale of a restaurant.

Total revenues were \$10,914,000 in the first quarter fiscal 2003 as compared to \$11,876,000 in the first quarter fiscal 2002. Systemwide sales of the Company's brands, including supermarket sales by the Company's hot dog licensee, were \$67,400,000 for the thirteen weeks ended June 30, 2002, as compared to \$72,433,000 for the thirteen weeks ended June 24, 2001.

Fewer Company-owned restaurants operated during the 2003 fiscal period, which lowered revenues by approximately \$785,000 and lowered restaurant operating profits by approximately \$53,000 (excluding royalties earned from two Company-owned restaurants that were franchised) as compared to the first fiscal quarter of fiscal 2002.

Lower revenues were earned from franchising activities due to lower franchise sales and royalties, fewer new store openings and lower co-branding fees earned as compared to the first quarter fiscal 2002 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 \$1,666,000 during the first fiscal quarter 2003 as compared to \$1,238,000 during last year's first fiscal quarter.

Sales of Nathan's products sold in supermarkets and club stores continue to result in year over year increases in royalties, increasing 15.5% for the first fiscal quarter of 2003 over the first fiscal quarter of 2002.

The Company has recorded impairment charges on long-lived assets of \$421,000 relating to three under-performing restaurants.

Subsequent to June 30, 2002, the Company entered into agreements to franchise three of its

Company-owned restaurants and sell two other restaurants to non-franchisees.

The purchase of 991,065 shares of its common stock through August 9, 2002 since its adoption of a share repurchase program on September 14, 2001.

At June 30, 2002, Nathan's Famous, Inc. consisted of 354 franchised or licensed units, 22 company-owned units and more than 1,600 Branded Product points of sale, located throughout thirty-nine 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

Summary Consolidated Statements of Earnings Data

(In thousands, except per share amounts)

	First Quarter Ended (unaudited)	
	June 30, 2002	June 24, 2001
Total revenues	\$ 10,914	\$ 11,876
Cost and expenses	<u>\$ 10,327</u>	<u>\$ 10,200</u>
Operating income	\$ 587	\$ 1,676
Income before cumulative effect of change in accounting principle	\$ 346	\$ 962
Cumulative effect of change in accounting principle, net of deferred income taxes of \$855	<u>\$(12,338)</u>	<u>\$ —</u>
Net (loss) income	<u>\$(11,992)</u>	<u>\$ 962</u>
Basic (loss) income per share		
Income before cumulative effect of change in accounting principle	\$ 0.05	\$ 0.14
Cumulative effect of change in accounting principle	<u>(1.94)</u>	<u>—</u>
Net (loss) income	<u>\$ (1.89)</u>	<u>\$ 0.14</u>
Diluted (loss) income per share (1)		
Income before cumulative effect of change in accounting principle	\$ 0.05	\$ 0.14
Cumulative effect of change in accounting principle	<u>(1.94)</u>	<u>—</u>
Net (loss) income	<u>\$ (1.89)</u>	<u>\$ 0.14</u>
Shares used in computing net income (loss)		
Basic	<u>6,354</u>	<u>7,065</u>
Diluted (1)	<u>6,354</u>	<u>7,084</u>

1) Common stock equivalents aggregating 219,000 shares have been excluded from the Diluted EPS calculation for the period ended June 30, 2002 as the impact of their inclusion would have been anti-dilutive.

Summary Balance Sheet Data

(In thousands)

	June 30, <u>2002</u> (Unaudited)	March 31, <u>2002</u>
Assets		
Current assets	\$ 15,212	\$ 18,581
Property and equipment, net	8,270	8,925
Notes receivable, net	2,172	2,277
Intangible assets, net	3,860	17,123
Other assets	2,867	1,839
Total assets	\$ 32,381	\$ 48,745
Liabilities and Stockholders' Equity		
Current liabilities	\$ 7,671	\$ 9,016
Notes payable and capitalized lease obligations less current maturities	1,183	1,220
Other long-term obligations	2,194	2,364
Stockholders' equity	21,333	36,145
Total liabilities and stockholders' equity	\$ 32,381	\$ 48,745