

Borrowings

The interest rate on our borrowings is generally determined based upon the prime rate and may be subject to market fluctuation as the prime rate changes as determined within each specific agreement. We do not anticipate entering into interest rate swaps or other financial instruments to hedge our borrowings. At March 28, 2004, total outstanding debt, including capital leases, aggregated \$1,039,000 of which \$986,000 is at risk due to changes in interest rates. The current interest rate is 4.50% per annum and will adjust in January 2006 and 2009 to prime plus .25%. Nathan's also maintains a \$5,000,000 credit line which bears interest at the prime rate plus 1.00% (5.00% at May 7, 2004). Nathan's has never borrowed any funds under its line of credit. Accordingly, Nathan's does not believe that fluctuations in interest rates would have a material impact on its financial results.

Commodity Costs

The cost of commodities are 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. During the fifty-two week period ended March 28, 2004, the price of our beef products has risen dramatically over historical norms and particularly as compared to last year. This increase has been caused by reductions in the supply of beef primarily due to: 1) the prohibition since May 2003 on importing of Canadian beef livestock into the U.S. 2) the decrease in imports of Australian beef due to local drought conditions and 3) the export of U.S. beef had increased through December 23, 2003 when the first case of bovine spongiform encephalopathy, otherwise known as BSE in the United States was reported. Nathan's has not experienced a softening in the price of beef since December 23, 2003. Although the export of beef by the United States was significantly reduced as a result of this finding, Nathan's had not realized a reduction in the cost of beef during the fourth quarter of fiscal 2004. As a result, Nathan's cost of its hot dogs was approximately 14.6% higher during the fifty-two weeks ended March 28, 2004 than the fifty-two weeks ended March 30, 2003. Nathan's had already increased menu prices in its Company-operated restaurants by approximately 2.0% and had increased prices within its Branded Product Program to offset some of the margin pressure. A short term increase or decrease of 10% in the cost of our food and paper products for the entire fifty-two weeks ended March 28, 2004 would have increased or decreased cost of sales by approximately \$983,000.

On December 23, 2003, the United States Department of Agriculture ("USDA") announced that the first case of bovine spongiform encephalopathy, otherwise known as BSE, or mad-cow disease was discovered in the United States in a single cow in the State of Washington. Nathan's has obtained written assurances from its beef processors that Nathan's products have not come from the meat processing plants associated with the production of products having to do with this incident. To date, Nathan's demand for its products continues to be strong. Nathan's has not experienced any material financial impact in connection with this incident.

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 Statement

Certain statements contained in this report are forward-looking statements. Forward-looking statements represent our current judgment regarding future events. Although we would not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which we are not aware. These risks and uncertainties, many of which are not within our control, include, but are not limited to: the future effects of the first case of bovine spongiform encephalopathy, BSE, identified in the United States on December 23, 2003; economic, weather, legislative and business conditions; the collectibility of receivables; the availability of suitable restaurant sites on reasonable rental terms; changes in consumer tastes; the ability to continue to attract franchisees; the ability to purchase our primary food and paper products at reasonable prices; no material increases in the minimum wage; and our ability to attract competent restaurant and managerial personnel. We generally identify forward-looking statements with the words "believe," "intend," "plan," "expect," "anticipate," "estimate," "will," "should" and similar expressions.