FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 290549

Mark One

[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended December 29, 1996.

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the transition period from to .

Commission File Number 1-3189

NATHAN'S FAMOUS, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-3166443
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

1400 Old Country Road, Westbury, New York 11590
(Address of principal executive offices including zip code)

(516) 338-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

At January 31, 1997, an aggregate of 4,722,216 shares of the registrant's common stock, par value of $.01, were outstanding.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 29, 1996 (Unaudited)	March 31, 1996
Assets		
Current assets:		
Cash and cash equivalents including restricted cash of $280 and $280, respectively	$1,899	$ 801
Marketable investment securities	6,483	6,128
Franchise and other receivables	1,342	1,108
Inventory	223	226
Prepaid income taxes	319	746
Prepaid expenses and other current assets	293	331
Deferred income taxes	571	571
Total current assets	11,130	9,911
Property and equipment, net	5,511	5,615
Intangible assets, net	11,737	12,025
Other assets, net	196	214
	$28,574	$27,765
Current liabilities:		
Current maturities of long-term debt	$18	$23
Accounts payable	731	1,003
Accrued expenses and other current liabilities	4,927	4,671
Deferred franchise fees	198	277
Total current liabilities	5,874	5,974
Long-term debt, net of current maturities	23	35
Deferred area development fees	44	200
Deferred income taxes	---	---
Other Liabilities	395	414
Total liabilities	6,336	6,623
Stockholders' equity:		
Common stock, $.01 par value - 20,000,000 shares authorized, 4,722,216 issued and outstanding	47	47
Additional paid-in-capital	32,296	32,261
Accumulated deficit	(10,105)	(11,166)
Total stockholders' equity	22,238	21,142
	$28,574	$27,765

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
THIRTEEN WEEKS ENDED DECEMBER 29, 1996 AND DECEMBER 24, 1995
(In thousands, except per share amounts)
(Unaudited)

	1996	1995
Sales	$5,304	$5,104
Franchise fees and royalties	862	870
License royalties	299	365
Other income	134	190
Total revenues	6,599	6,529
Costs and expenses:		
Cost of restaurant sales	3,262	3,205
Restaurant operating expenses	1,623	1,706
Depreciation and amortization	253	395
Amortization of intangible assets, debt issuance and pre-opening costs	107	156
General and administrative	1,030	1,052
Interest expense	1	5
Total costs and expenses	6,276	6,519
Earnings before income taxes	323	10
Provision for income taxes	137	4
Net earnings	$ 186	$ 6
Net earnings per common share	$ 0.04	$ 0.00
Weighted average number of common and common equivalent shares outstanding	4,722	4,722

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
THIRTY-NINE WEEKS ENDED DECEMBER 29, 1996 AND DECEMBER 24, 1995 (In thousands, except per share amounts)
(Unaudited)

	1996	1995
Sales	$17,034	$16,389
Franchise fees and royalties	2,556	2,570
License royalties	857	1,086
Other income	486	648
Total revenues	20,933	20,693
Costs and expenses:		
Cost of restaurant sales	10,002	9,638
Restaurant operating expenses	5,068	5,090
Depreciation and amortization	774	1,260
Amortization of intangible assets, debt issuance and pre-opening costs	306	450
General and administrative	2,953	3,365
Interest expense	15	17
Total costs and expenses	19,118	19,820
Earnings before income taxes	1,815	873
Provision for income taxes	754	399
Net earnings	$ 1,061	$ 474
Net earnings per common share	$ 0.22	$ 0.10
Weighted average number of common and common equivalent shares outstanding	4,722	4,722

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THIRTY-NINE WEEKS ENDED DECEMBER 29, 1996
(In thousands, except share amounts)
(Unaudited)

	Common Shares	Common Stock	Additional Paid in-Capital	Deferred Compen-sation	Accum-ulated Deficit	Total Stock-holders' Equity
Balance, March 31, 1996	4,722,216	$ 47	$ 32,388	$ (127)	$(11,166)	$21,142
Amortization of deferred compensation relating to restricted stock				35		35
Net earnings					1,061	1,061
Balance, Dec. 29, 1996	4,722,216	$ 47	$ 32,388	$ (92)	$(10,105)	$22,238

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THIRTY-NINE WEEKS ENDED DECEMBER 29, 1996 AND DECEMBER 24, 1995
(In thousands)
(Unaudited)

	1996	1995
Cash flows from operating activities:		
Net earnings	$ 1,061	474
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	774	1,260
Amortization of intangible assets	306	450
Provision for doubtful accounts	45	83
Other	35	35
Changes in assets and liabilities:		
Marketable investment securities	(355)	(2,683)
Franchise and other receivables	(279)	(679)
Inventory	3	(273)
Prepaids and other current assets	465	52
Deferred income taxes	-	(41)
Accounts payable and accrued expenses	(16)	(77)
Deferred franchise fees	(79)	2
Other assets	18	(33)
Deferred area development fees	(156)	(82)
Other non current liabilities	(19)	(59)
Net cash (used in) provided by operating activities	1,803	(1,571)
Cash flows from investing activities:		
Purchase of property and equipment	(688)	(1,889)
Purchase of franchise restaurants	-	(150)
Net cash used in investing activities	(688)	(2,039)
Cash flows from financing activities:		
Principal repayment of borrowings	(17)	(46)
Net cash used in financing activities	(17)	(46)
Net increase (decrease) in cash and cash equivalents	1,098	(3,656)
Cash and cash equivalents, beginning of period	801	4,086
Cash and cash equivalents, end of period	$1,899	$ 430
Cash paid / (refunded) during the period for:		
Interest	$ 16	$ 17
Income taxes	(181)	631

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 29, 1996

NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements of Nathan's Famous, Inc. and Subsidiaries (the "Company") for the thirteen and thirty-nine week periods ended December 29, 1996 and December 24, 1995 have been prepared in accordance with generally accepted accounting principles. These financial statements include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of financial condition, results of operations and cash flows for such periods. However, these results are not necessarily indicative of results for any other interim period or the full year.

Certain information and footnote disclosures normally included in financial statements in accordance with generally accepted accounting principles have been omitted pursuant to the requirements of the Securities and Exchange Commission. Management believes that the disclosures included in the accompanying interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996.

NOTE B - RECLASSIFICATIONS

Certain reclassifications of prior period balances have been made to conform to the December 29, 1996 presentation.

NOTE C - EARNINGS PER SHARE

Weighted average common shares outstanding for the thirteen and thirty-nine weeks ended December 29, 1996 and December 24, 1995 were 4,722,216. There were no common stock equivalents for the thirteen and thirty-nine weeks ended December 29, 1996 and December 24, 1995.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Thirteen weeks ended December 29, 1996 compared to December 24, 1995

Revenues

Company-owned restaurant sales increased 3.9% or $200,000 to $5,304,000 for the thirteen weeks ended December 29, 1996 ("third quarter fiscal 1997") from $5,104,000 for the thirteen weeks ended December 24, 1995 ("third quarter fiscal 1996"). The Company opened one new unit during the current fiscal year which generated sales of $122,000 during the third quarter fiscal 1997. Comparable unit sales (units operating for 18 months or longer as of the beginning of the current fiscal year) increased $118,000 or 2.8% during the quarter. Throughout the third quarter fiscal 1997, the Company continued to focus on its aggressive local store marketing campaigns and value pricing strategy in order to address the competitive environment. In March 1996, the Company completed the renovation of two of its larger restaurants and since that time has experienced sales increases at such stores. Plans are currently being developed to renovate and modernize the appearance of certain other Company-owned units. At December 29, 1996 and December 24, 1995, there were 26 and 27 Company-owned units, respectively.

Franchise fees and royalties decreased by $8,000 or 0.9% to $862,000 in the third quarter fiscal 1997 compared to $870,000 in the third quarter fiscal 1996. Franchise royalties decreased by $4,000 or 0.6% to $689,000 in the third quarter fiscal 1997 as compared to $693,000 in the third quarter fiscal 1996. Franchisee sales upon which royalties are based decreased to $17,128,000 in the third quarter fiscal 1997 as compared to $17,587,000 in the third quarter fiscal 1996 due primarily to lower comparable sales which were partially offset by sales from the new units opened during the current fiscal year. At December 29, 1996 there were 180 franchise units as compared to 176 at December 24, 1995. Franchise fee income was $173,000 in the third quarter fiscal 1997 as compared to $177,000 in the third quarter fiscal 1996. During the third quarter fiscal 1997 franchisees and licensees opened 7 new units as compared to 10 new units opened during the third quarter fiscal 1996. Franchise fees earned during fiscal 1996 also included revenue earned from a non refundable deposit associated with the sale of certain exclusive rights for development within Russia.

License royalties decreased by $66,000 or 18.1% to $299,000 in the third quarter 1997 as compared to $365,000 in the third quarter fiscal 1996. This decrease primarily results from the Company no longer amortizing the deferred fee received from SMG, Inc., in connection with their license agreement for the sale of Nathan's frankfurters in supermarkets. The amortization period concluded in February 1996.

Other income decreased to $134,000 in the third quarter fiscal 1997 from $190,000 in the third quarter fiscal 1996 primarily due to reduced investment income.

Costs and Expenses

Cost of restaurant sales increased by $57,000 from $3,205,000 in the third quarter fiscal 1996 to $3,262,000 in the third quarter fiscal 1997. As a percentage of restaurant sales, cost of restaurant sales decreased to 61.5% in the third quarter fiscal 1997 as compared to 62.8% in the third quarter fiscal 1996 due principally to the net impact of higher percentage costs of food and paper resulting from the Company's marketing strategies which were offset by reduced labor and benefit costs as a percentage of restaurant sales.

Restaurant operating expenses decreased as a percentage of restaurant sales from 33.4% in the third quarter fiscal 1996 to 30.6% in the third quarter fiscal 1997. This decrease primarily resulted from the benefit derived from closing two unprofitable restaurants in the first quarter of fiscal 1997.

Depreciation and amortization decreased by $142,000 or 35.9% from $395,000 in the third quarter fiscal 1996 to $253,000 in the third quarter fiscal 1997. Amortization of intangibles, debt issuance and pre-opening costs decreased by $49,000 or 31.4% from $156,000 in the third quarter fiscal 1996 to $107,000 in the third quarter fiscal 1997. These decreases are primarily attributable to the reduced depreciation and amortization expense resulting from the implementation of Financial Accounting Standards Board Statement No. 121 during the fourth quarter of fiscal 1996.

General and administrative expenses decreased by $22,000 or 2.1% to $1,030,000 in the third quarter fiscal 1997 as compared to $1,052,000 in the third quarter fiscal 1996. This decrease partially results from corporate staff reductions made during fiscal 1997. As a percentage of total revenues, general & administrative costs for the third quarter fiscal 1997 were 15.6% as compared to 16.1% for the third quarter fiscal 1996.

Income Tax Provision

In the third quarter fiscal 1997, the income tax provision was $137,000 or 42.4% of income before income taxes. In the third quarter fiscal 1996, the income tax provision was $4,000 or 40.0% of income before income taxes.

Thirty-nine weeks ended December 29, 1996 compared to December 24, 1995

Revenues

Restaurant sales increased 3.9% or $645,000 to $17,034,000 for the thirty-nine weeks ended December 29, 1996 ("fiscal 1997") from $16,389,000 for the thirty-nine weeks ended December 24, 1995 ("fiscal 1996"). The Company opened one new unit during fiscal 1997 which generated sales of $270,000. Comparable unit sales (units operating for 18 months or longer as of the beginning of the current fiscal year) declined $61,000 or 0.4% during the period. Sales continue to be challenged by the discount strategies of the Company's principal competitors, increased competition and certain external factors affecting specific restaurants. During fiscal 1997, the Company has implemented a more aggressive local store marketing campaign and value pricing strategy in order to address the sales softness. In March 1996, the Company completed the renovation of two of its larger restaurants and has experienced sales increases at such stores thus far. Plans are currently being developed to renovate and modernize the appearance of certain other Company-owned units.

Franchise fees and royalties decreased by $14,000 or 0.5% to $2,556,000 in fiscal 1997 compared to $2,570,000 in fiscal 1996. Franchise royalties declined to $2,005,000 in fiscal 1997 as compared to $2,050,000 in fiscal 1996, representing a decrease of 2.2% or $45,000. Franchise restaurant sales upon which royalties are based decreased to $50,293,000 in fiscal 1997 as compared to $52,213,000 in fiscal 1996 primarily due to lower comparable sales which were partially offset by sales from the new units opened during the current fiscal year. Franchise fee income increased to $551,000 in fiscal 1997 as compared to $520,000 in fiscal 1996. During fiscal 1997, franchisees and licensees opened 29 new units versus fiscal 1996 in which 30 new units were opened. Higher franchise fees were earned during fiscal 1997 as compared to fiscal 1996 due primarily to the higher recognition of fees associated with expired development agreements. Franchise fees earned during fiscal 1996 also included revenue earned from a non refundable deposit associated with the sale of certain exclusive rights for development within Russia.

License royalties decreased by $229,000 or 21.1% to $857,000 in fiscal 1997 as compared to $1,086,000 in fiscal 1996. The majority of this decrease results from the Company no longer amortizing the deferred fee received from SMG, Inc., in connection with their license agreement for the sale of Nathan's frankfurters in supermarkets. The amortization period concluded in February 1996.

Other income decreased to $486,000 in fiscal 1997 from $648,000 in fiscal 1996 primarily due to reduced investment income.

Costs and Expenses

Cost of restaurant sales increased by $364,000 from $9,638,000 in fiscal 1996 to $10,002,000 in fiscal 1997. This increase primarily results from costs associated with operating different units during fiscal 1997. As a percentage of restaurant sales, the cost of restaurant sales decreased to 58.7% in fiscal 1997 as compared to 58.8% in fiscal 1996 due principally to the net impact of higher percentage costs of food and paper resulting from the Company's marketing strategies which were offset by lower labor and benefit costs as a percentage of sales.

Restaurant operating expenses decreased as a percentage of restaurant sales from 31.1% in fiscal 1996 to 29.8% in the fiscal 1997. This decrease primarily resulted from the benefit derived from closing two unprofitable restaurants in the first quarter of fiscal 1997.

Depreciation and amortization decreased by $486,000 or 38.6% from $1,260,000 in fiscal 1996 to $774,000 in fiscal 1997. Amortization of intangibles, debt issuance and pre-opening costs decreased by $144,000 or 32.0% from $450,000 in fiscal 1996 to $306,000 in fiscal 1997. These decreases are primarily attributable to the reduced depreciation and amortization expense resulting from the implementation of Financial Accounting Standards Board Statement No. 121 during the fourth quarter of fiscal 1996.

General and administrative expenses decreased by $412,000 or 12.2% to $2,953,000 in fiscal 1997 as compared to $3,365,000 in fiscal 1996. This decrease partially results from corporate staff reductions made during fiscal 1996 and the first quarter fiscal 1997. Additionally, certain one-time benefits and timing differences further lowered general and administrative expenses for fiscal 1997. As a percentage of total revenues, general and administrative costs for fiscal 1997 were 14.1% as compared to 16.3% in fiscal 1996.

Income Tax Provision

In fiscal 1997 the income tax provision was $754,000 or 41.5% of income before income taxes. In fiscal 1996 the income tax provision was $399,000 or 45.7% of income before income taxes. The fiscal 1997 tax rate has been reduced to reflect the Company's estimated effective state tax rate.

Liquidity and Capital Resources

Cash and cash equivalents at December 29, 1996 aggregated $1,899,000, increasing by $1,098,000 during fiscal 1997. At December 29, 1996, marketable investment securities totalled $6,483,000 and net working capital increased to $5,256,000 from $3,937,000 at March 31, 1996.

Cash provided by operations of $1,791,000 in fiscal 1997 is primarily attributable to net income of $1,061,000, non-cash charges of $1,160,000, including depreciation and amortization of $1,080,000, a decrease in prepaids and other current assets of $465,000, increases in marketable investment securities of $355,000, and franchise and other receivables of $279,000 and decreases in deferred area development fees and deferred franchise fees of $156,000 and $79,000, respectively.

Cash used in investing activities of $688,000 represents property and equipment purchases relating to the construction of a new Company-owned unit which opened in July 1996, and other fixed asset additions.

Management believes that available cash, marketable investment securities, and internally generated funds should provide sufficient capital for its planned operations and expansion program through fiscal 1997. The Company also maintains a $5,000,000 uncommitted bank line of credit. The Company has not borrowed any funds to date under this line of credit.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

CSX Transportation v. Nathan's et al.

The Company has been named as one of several "generator defendants" in an action brought by CSX Transportation, Inc. ("CSX") and Staten Island - Arlington, Inc. ("Arlington") in the Supreme Court of the State of New York, County of New York.

According to the complaint, CSX, through its wholly owned subsidiary, Arlington, owned certain property in Staten Island (the "Arlington Yard") which, according to the complaint, during the period May 15, 1988 through September 14, 1988 was the site of illegal solid waste dumping activity allegedly orchestrated by certain defendants convicted of such activity in United States v. Paccione, et al. (the "Paccione Defendants").

Pursuant to an Order on Consent into which CSX alleges it entered with the NYS Dept. of Environmental Conservation ("DEC"), CSX undertook to remediate the site and to reimburse the DEC for amounts expended in connection with a preliminary investigation of the site. CSX is now suing several "transporter defendants" (ie., those who allegedly had wastes generated by them transported to Arlington Yard), for damages and injunctive relief based upon various theories of law, including private and public nuisance, restitution, equitable indemnity and trespass.

The Company has filed an answer in which it denied generally involvement with the site and perforce, any liability to the plaintiffs under the theories advanced, asserted affirmatively several legal and equitable defenses to liability in these circumstances, and alternatively, interposed cross claims for contribution against other defendants.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Modification Agreement to the Employment Agreement between the Company and Wayne Norbitz dated December 28, 1992.

10.2 Amendment to License Agreement dated as of February 28, 1994, among Nathan's Famous Systems, Inc. and SMG, Inc., including waivers and amendments thereto.

(b) No reports on Form 8-K were filed during the quarter ended December 29, 1996.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATHAN'S FAMOUS, INC.

Date: February 4, 1997

By: /s/ Wayne Norbitz
Wayne Norbitz
President and Chief Operating Officer
(Principal Executive Officer)

Date: February 4, 1997

By: /s/ Ronald DeVos
Ronald DeVos
Vice President - Finance
and Chief Financial Officer

MODIFICATION AGREEMENT

MODIFICATION AGREEMENT made this 31st day of December, 1996 by and between NATHAN'S FAMOUS, INC., a Delaware corporation (hereinafter the "Company") and WAYNE NORBITZ (hereinafter the "Employee").

W I T N E S S E T H:

WHEREAS, the Company and Employee entered into an Employment Agreement dated December 28, 1992, as modified subsequently by Agreement dated November 8, 1993 (hereinafter the "Employment Agreement"); and

WHEREAS, the Company and Employee desire to modify the said Employment Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

Paragraph "1" shall be revised to read as follows:

1. EMPLOYMENT: TERM.

The Company will employ Employee in its business, and Employee will work for the Company, as its President and Chief Operating Officer, for a period commencing on January 1, 1997 and ending on December 31, 1997 (the "Initial Employment Period").

This Agreement shall be renewed automatically on the same terms and conditions (or such other terms and condition as upon which the Company and Employee shall agree in writing) for additional one year periods (each known as an "Additional Employment Period") after the conclusion of the Initial Employment Period unless at least 180 days prior to the end of the Initial Employment Period or any Additional Employment Period, the Board of Directors shall notify the Employee in the manner prescribed in Paragraph 14 hereof that the Company has elected to terminate the Agreement at the end of the Initial Employment Period or any Additional Employment Period.

2. Paragraph 8.4 (b) (i) and (c) shall be revised to read as follows:

(b) In the event of any termination hereof by the Company without cause, then in addition to any accrued but unpaid compensation or other benefits or perquisites to which the Employee already is entitled through the effective date of termination, the Employee shall be entitled to receive as well both (i) the compensation set forth in Section 4.1 and (ii) the other benefits to which Employee would be entitled under Section 4 hereof ("the Remaining Compensation"), for a period of six (6) months from the date on which Notice of Termination is given (the "Remaining Compensation Period"). Unless otherwise indicated in the Notice of Termination or at any time thereafter during the Remaining Compensation Period, the Employee shall be obligated to continue to work for the Company for the Remaining Compensation Period in such executive capacity as the Board of Directors shall determine. The Remaining Compensation shall be payable over the Remaining Compensation Period in the same manner in which the Annual Compensation otherwise was payable hereunder to the Employee, with any unpaid balance of the Remaining Compensation to be paid in full on the last day of the Remaining Compensation Period. * * *

(c) In the event of the earlier termination of this Agreement by the Company pursuant to Section 8.4 (b) or upon the election of the Company to terminate this Agreement without cause effectively at the end of the Initial Employment Period or an Additional Employment Period as prescribed in Section 1 hereof, Employee shall be entitled additionally to a Severance Payment of such amount as represents then the annual rate of compensation being paid to the Employee pursuant to Section 4.1 hereof. Such severance payment shall be due and payable within thirty (30) days after (i) the last day of the Remaining Compensation Period (in the event of termination pursuant to Section 8.4 [b]) or (ii) the end of the Initial Employment Period or Additional Employment Period (in the event of the Company's election to terminate pursuant to Section 1 hereof).

3. The following language shall be added as new Section 8.4 (d) to the Agreement:

(d) In the event of the termination of this Agreement, the Employee shall not be entitled to any compensation or benefits, other than as provided specifically in this Section 8.4.

4. The aforesaid Employment Agreement in all other respects is hereby ratified, approved and confirmed.

IN WITNESS WHEREOF, the undersigned have executed this Extension and Modification Agreement as of the day and year first above written.

NATHAN'S FAMOUS, INC.

By: /s/ Howard Lorber

Howard Lorber,
Chairman of The Board and
Chief Executive Officer

/s/ Wayne Norbitz

Wayne Norbitz, Employee

Nathan's Famous Systems, Inc.
1400 Old Country Road
Westbury, New York 11590

December 13, 1996

Mr. Peter Shea
President
SMG, Inc.
2890 Chancellor Drive, Suite 210
Crestview Hills, Kentucky 41017

Re: Amendment to License Agreement

Dear Mr. Shea:

This letter agreement is to confirm the understandings reached over the past two weeks between SMG, Inc. ("SMG") and Nathan's Famous Systems, Inc. ("NFSI") regarding certain modifications to the license agreement dated February 28, 1994 between SMG and NFSI, as amended on or about April 26, 1995 (the "Amendment"; together, the "License Agreement"). Except as otherwise indicated, capitalized terms used in this letter agreement shall have the meaning set forth under the License Agreement.

The parties hereto agree as follows:

1. Recomputed Minimum Royalties. SMG agrees that it shall pay Minimum Royalties to NFSI using the Recomputed Minimum Royalty formula set out in Section 2.7(b) of the License Agreement, starting at the earlier of:

   a. the first full month after there has been a Change of Control (as defined in Section 2.7(b) of the License Agreement); or

   b. The payment due in April 1997 for the month ended March 31, 1997, whether or not there has been Change of Control.

2. Percentage Royalties. Effective January 1, 1997, Section 2.7(a) of the License Agreement (which was previously amended by paragraph 5 of the Amendment) shall be amended as follows:

   a. The provision to such Section 2.7(a) which currently reads "provided, however, that the Percentage Royalty on corned beef shall be 2% flat." shall be amended in its entirety to read as follows: "provided, however, that the Percentage Royalty on corned beef shall be three percent (3%) flat."

   b. The provision in such Section 2.7(a) which currently reads "In addition, the Percentage Royalty on Deli Products and hamburgers shall be two percent (2%) flat." shall be amended in its entirety to read as follows: "In addition, the Percentage Royalty on Deli Products shall be four percent (4%) flat and the Percentage Royalty on hamburgers shall be two percent (2%) flat."

   c. The following shall be added to such Section 2.7(a) as new Section 2.7(a)(iii):

      (iii) Notwithstanding anything to the contrary herein, with respect to bulk natural casing and skinless frankfurters constituting Deli Products which are sold to supermarket chain listed on Exhibit A hereto (a "Designated Supermarket Chain"), the Percentage Royalty shall be ten percent (10%); provided, however, that:

         (1) For purposes of determining the Percentage Royalty under this Section 2.7(a)(iii), such Percentage Royalty shall be paid on the amount of Net Sales of bulk natural casing and skinless frankfurters sold to Designated Supermarket Chains.

         (2) NFSI shall have the right to introduce SMG to the Designated Supermarket Chain business, but SMG shall retain all control over all sales, manufacturing, shipping, invoicing, marketing, advertising and promotion with respect to such Designated Supermarket Chains (subject to the parties

respective rights and obligations pursuant to Section 2.4(g) of the License Agreement).

(3) All sales pursuant to this Section 2.7(a)(iii) must be made directly to Designated Supermarket Chain(s) (or through a wholesaler, distributor or the like for shipment only to said Designated Supermarket Chain(s)), and only frankfurters manufactured by SMG may be sold to Designated Supermarket Chains by NFSI.

(4) To the extent NFSI engages any brokers to assist in soliciting Designated Supermarket Chain business, such brokers must be approved by SMG (such approval not to be unreasonably withheld) and the cost and expense of any such broker shall be for the sole account of NFSI. In addition to the brokers' costs and expenses, if any, NFSI shall be solely responsible for all costs and expenses relating to its own acts and inactions, and SMG shall be solely responsible for all costs and expenses relating to its own acts and inactions.

(5) Unless SMG otherwise agrees (in its sole discretion), all sales to Designated Supermarket Chains shall be in accordance with SMG's pricing schedules and be subject to SMG's approved promotional programs (which, in turn, shall be subject to the parties respective rights and obligations pursuant to Section 2.4(g) of the License Agreement). Any term or provision hereof to the contrary notwithstanding, if NFSI engages a broker to assist in soliciting the business of a Designated Supermarket Chain, NFSI shall use best commercial efforts to secure said broker's agreement to have sole responsibility for taking orders from such Designated Supermarket Chain for sales pursuant to this Section 2.7(a)(iii).

(6) As to any supermarket chain set forth on Exhibit A hereto (as such Exhibit may be amended or modified from time to time by mutual agreement or pursuant to Section 2.7(a)(iii)(6) below), such supermarket chain shall automatically cease to be a Designated Supermarket Chain if SMG has not sold any natural casing or skinless frankfurters to such Designated Supermarket Chain within the immediately preceding six (6) month period. Notwithstanding anything to the contrary herein, if there have been no sales of natural casing or skinless frankfurters to any Designated Supermarket Chain within any continuous one (1) year period, then the provisions of this Section 2.7(a)(iii) shall automatically terminate and shall be of no further force or effect.

(7) In addition to the two initial Designated Supermarkets, upon the reasonable written request of NFSI, additional supermarket chains located in the New York metropolitan area which are not then customers of SMG for Deli Product frankfurters may be added to Exhibit A (and thereby become Designated Supermarket Chains), provided that SMG, in its sole discretion, approves such addition to Exhibit A (which approval shall not be unreasonably withheld).

3. Marketing, Advertising, and Promotion. Each year, SMG shall submit to NFSI a proposed advertising and promotional plan (the "Plan") for the next calendar year's sales of Nathan's Products. With respect to the Plan:

a. The Plan shall outline the markets in which SMG proposes to sell Nathan's Products in that year as well as the projected date of entry into new markets, planned advertising and other promotional activity, and projected volume for each market. The parties hereto recognize and acknowledge that successful entry into new markets will be subject to a variety of factors, some of which will be out of SMG's control. There can be no assurance of successful or sustained entry into a new market.

b. The Plan shall be subject to the parties respective rights and obligations pursuant to Section 2.4(g) of the License Agreement, to the extent such provision applies to the Plan.

c. Senior executives of SMG and NFSI shall meet to discuss the Plan on or before the date on which it is due to be submitted to NFSI. Senior executives of SMG and NFSI shall meet monthly to review SMG's performance and progress in implementing the Plan.

d. For calendar year 1997, the Plan shall be submitted to NFSI on or before February 20, 1997, and SMG shall submit the Plan for each subsequent calendar year to NFSI on or before February 20th of such calendar year (e.g., by February 20, 1998 for calendar year 1998).

4. The Applicable Margin. Effective January 1, 1997, the Applicable Margin set forth in paragraph 3 of Schedule C to the License Agreement shall be amended as follows:

a. The Applicable Margin for bulk frankfurters, shipped to Restaurants (as defined in Section 1.12 of the License Agreement), shall be reduced by ten cents ($.10) per pound for skinless frankfurters and by four cents ($.04) per pound for natural casing frankfurters, to:

Applicable Margin for
Bulk Nathan's Products Shipped to Restaurants

Description	Applicable Margin (per/lb.)
skinless frankfurters; all markets	Seventy cents ($0.70)
natural casing frankfurters; all markets	One dollar and twenty-five cents ($1.25)

5. Branded Product Program. Notwithstanding anything to the contrary in this letter agreement or the License Agreement, the following terms and conditions shall apply to sales of bulk natural casing and skinless frankfurters sold under NFSI's branded product program:

   a. SMG will not sell Nathan's Products to branded product program customers without NFSI's prior written approval;

   b. NFSI shall purchase frankfurters from SMG for resale to branded product program customers.

      i. SMG shall sell frankfurters to NFSI for the branded product program in such amount as NFSI orders (subject paragraph 5(b)(iii) below).

      ii. SMG further agrees that to the extent it sells frankfurters to NFSI for resale to branded product program customers, SMG shall act as NFSI's shipping agent with respect to such sales.

      iii. SMG's obligations under paragraph 5(b)(i) above shall be limited as follows:

         (1) SMG shall not be required to sell NFSI more than five million (5,000,000) pounds of frankfurters each year; and of such amount, SMG shall not be required to sell more than seven hundred and fifty thousand (750,000) pounds of natural casing frankfurters each such year; and

         (2) SMG's obligations under paragraph 5(b)(i) shall only be in effect for a period of three (3) years from the date of this letter amendment.

   c. The Applicable Margin for NFSI's purchases of skinless frankfurters under the branded product program shall be reduced to the figures that follow (it being understood that the reduction in the Applicable Margin described in paragraph 4(a) above shall not apply to the branded product program):

Applicable Margin for Branded Products Program
(all final prices shall be FOB plant of manufacture)

Description	Applicable Margin (per/lb.)
skinless frankfurters; all markets	Forty-four cents ($0.44)
natural casing frankfurters; all markets	One dollar and seventeen cents ($1.17)

d. With respect to all sales under the branded product program, NFSI shall be solely responsible for all costs and expenses relating to its own acts and inactions (including without limitation, pricing discrepancies, errors in taking orders, and promotional costs) and SMG shall be solely responsible for all costs and expenses relating to its own acts and inactions (including without limitation, reclamations and spoils, and losses from shipments refused for quality reasons).

6. Changes to the Applicable Margin. With respect to frankfurters to be sold in the branded product programs the Applicable Margin shall not be changed before December 15, 1997. At that time, SMG may change the Applicable Margin by the same percentage amount as its overhead expenses (but not its raw material costs) have increased or decreased; provided, that any increases in the Applicable Margin shall not exceed the percentage change in the Index over the same period of time. Any changes to the Applicable Margin subsequent to such date shall not exceed the percentage change in the Index over the same period of time. For the purpose of this paragraph 6, the term "Index" shall mean the Consumer Price Index (1982-84=100; all items; Chicago-Gary-Lake County; CPI-U; all urban consumers) as published by the U.S. Bureau of Labor Statistics ("BLS"), or, if BLS no longer publishes the Index, the Consumer Price Index for the United States.

7. Procedure for Calculating Royalties. The procedure for calculating royalties shall be as set forth in the attached Exhibit B.

8. Miscellaneous.

a. Except as specifically indicated above, this letter agreement shall neither amend nor modify any term or provision of the License Agreement.

b. This letter agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior agreements between the parties relating to the subject matter hereof, and shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

c. This letter agreement may not be modified in any respect except by a duly executed instrument signed by the parties hereto.

d. This letter agreement shall be interpreted and construed exclusively under the laws of the State of New York, which laws shall prevail in the event of any conflict of law (without regard to, and without giving effect to, the application of New York choice of law rules).

e. This letter agreement may be executed in any number of counterparts (which may be exchanged by fax), each of which shall be deemed to constitute one and the same instrument.

f. The headings used in this letter agreement are for the parties' convenience only, and neither amend nor modify the terms of this letter agreement.

If you are in agreement with the terms and conditions set out above, kindly sign below to signify that fact, where indicated.

Sincerely,

Nathan's Famous Systems, Inc.

By: Wayne Norbitz, President

Acknowledged and Agreed:

SMG, Inc.

By: Peter Shea, President

396292.8

Exhibit A

Supermarkets
Para. 2(c)(1)

1. Waldbaum's
2. A&P (provided that A&P must purchase Deli Product frankfurters within six (6) months after SMG's initial shipment of Deli Product frankfurters to the Waldbaum's chain).

Exhibit B

Pricing Formula

5

The schedule contains summary fiinancial information extracted from the consolidated financial statements for the quarter ended December 29, 1996 and is qualified in its entirety by reference to such statements.

9-MOS
MAR-30-1997
DEC-29-1996
1,899
6,483
2,078
736
223
11,130
11,838
6,327
28,574
5,874
0
0
0
47
22,191
28,574
17,034
20,933
10,002
6,148
2,908
45
15
1,815
754
1,061
0
0
0
1,061
.22
.00