FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended September 23, 2001.

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

Commission File Number 0-3189

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 September 23, 2001, an aggregate of 7,065,202 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 share amounts)

	Sept. 23, 2001 (Unaudited)	March 25, 2001
Current assets:		
Cash and cash equivalents including unexpended marketing fund contributions of $301 and $2,104 and restricted cash of $83 and $83, respectively	$ 4,494	$ 4,325
Marketable securities and investment in limited partnership	6,342	4,648
Notes and accounts receivables, net	3,523	4,178
Inventories	676	523
Assets held for sale	-	1,510
Prepaid expenses and other current assets	316	974
Deferred income taxes	1,741	1,714
Total current assets	17,092	17,872
Notes receivable, net	1,719	1,729
Property and equipment, net	10,868	11,279
Assets held for sale	450	450
Intangible assets, net	17,567	18,011
Deferred income taxes	2,081	2,081
Other assets, net	372	404
	$ 50,149	$ 51,826
Current liabilities:		
Current maturities of notes payable and capital lease obligations	$ 183	$ 1,343
Accounts payable	2,003	1,978
Accrued expenses and other current liabilities	6,855	8,731
Deferred franchise fees	612	610
Total current liabilities	9,653	12,662
Notes payable and capital lease obligations, less current maturities	1,693	1,789
Other liabilities	2,156	2,344
Total liabilities	13,502	16,795
Stockholders' equity:		
Common stock, $.01 par value - 30,000,000 shares authorized, 7,065,202 issued and outstanding , respectively	71	71
Additional paid-in capital	40,746	40,746
Accumulated deficit	(4,170)	(5,786)
Total stockholders' equity	36,647	35,031
	$ 50,149	$ 51,826

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
Thirteen weeks ended September 23, 2001 and September 24, 2000
In thousands, except per share amounts)
(Unaudited)

	2001	2000
Sales	$ 9,085	$ 9,493
Franchise fees and royalties	2,052	2,119
License royalties	605	658
Investment and other income	43	396
Total revenues	11,785	12,666
Costs and expenses:		
Cost of sales	5,885	6,035
Restaurant operating expenses	2,018	2,216
Depreciation and amortization	394	434
Amortization of intangible assets	220	238
General and administrative expenses	2,051	2,138
Interest expense	48	74
Total costs and expenses	10,616	11,135
Income before income taxes	1,169	1,531
Provision for income taxes	515	598
Net income	$ 654	$ 933
PER SHARE INFORMATION		
Net income per share		
Basic	$ 0.09	$ 0.13
Diluted	$ 0.09	$ 0.13
Shares used in computing net income		
Basic	7,065	7,065
Diluted	7,080	7,155

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
Twenty-six weeks ended September 23, 2001 and September 24, 2000
(In thousands, except per share amounts)
(Unaudited)

	2001	2000
Sales	$ 17,673	$ 19,125
Franchise fees and royalties	4,241	4,408
License royalties	1,312	1,299
Investment and other income	435	733
Total revenues	23,661	25,565
Costs and expenses:		
Cost of sales	11,485	12,244
Restaurant operating expenses	3,971	4,673
Depreciation and amortization	814	866
Amortization of intangible assets	442	475
General and administrative expenses	4,170	4,379
Interest expense	107	146
Other (income)	(210)	-
Total costs and expenses	20,779	22,783
Income before income taxes	2,882	2,782
Provision for income taxes	1,266	1,104
Net income	$ 1,616	$ 1,678
PER SHARE INFORMATION		
Net income per share		
Basic	$ 0.23	$ 0.24
Diluted	$ 0.23	$ 0.24
Shares used in computing net income		
Basic	7,065	7,053
Diluted	7,082	7,099

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Twenty-six weeks ended September 23, 2001
(In thousands, except share amounts)
(Unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Accum-ulated Deficit	Total Stock-holders' Equity
Balance, March 25, 2001	7,065,202	$ 71	$ 40,746	$(5,786)	$ 35,031
Net income	-	-	-	1,616	1,616
Balance, Sept. 23, 2001	7,065,202	$ 71	$ 40,746	$(4,170)	$ 36,647

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Twenty-six weeks ended September 23, 2001 and September 24, 2000
(In thousands)
(Unaudited)

	2001	2000
Cash flows from operating activities:		
Net income	$ 1,616	$ 1,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	814	866
Amortization of intangible assets	442	475
Provision for doubtful accounts	83	27
Stock compensation expense	-	78
Gain on sale of restaurant	(93)	-
Deferred income taxes	(27)	-
Changes in operating assets and liabilities:		
Marketable securities and investment in limited partnership	(1,694)	(2,138)
Notes and accounts receivables, net	(47)	(1,045)
Inventories	(153)	(54)
Prepaid expenses and other current assets	658	62
Accounts payable and accrued expenses	(1,851)	1,516
Deferred franchise and area development fees	2	(167)
Other assets, net	32	47
Other non current liabilities	(188)	1,451
Net cash (used in) provided by operating activities	(406)	2,796
Cash flows from investing activities:		
Purchase of property and equipment	(673)	(778)
Proceeds from sale of restaurants, net	1,875	45
Payments received on notes receivable	629	378
Net cash provided by (used in) investing activities	1,831	(355)
Cash flows from financing activities:		
Principal repayment of borrowings and obligations under capital leases	(1,256)	(138)
Net cash used in financing activities	(1,256)	(138)
Net increase in cash and cash equivalents	169	2,303
Cash and cash equivalents, beginning of period	4,325	2,397
Cash and cash equivalents, end of period	$4,494	$4,700
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$ 77	$1,041
Cash paid during the period for interest	$ 114	$ 149
NONCASH FINANCING ACTIVITIES:		
Loan to franchisee in connection with restaurant sale	$ -	$ 130

See accompanying notes to consolidated financial statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 23, 2001
(unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements of Nathan's Famous, Inc. and subsidiaries (collectively "Nathan's") for the thirteen and twenty-six week periods ended September 23, 2001 and September 24, 2000 have been prepared in accordance with generally accepted accounting principles. The unaudited financial statements include all adjustments (consisting of normal recurring adjustments) which, in the opinion of management, were necessary for a fair presentation of financial condition, results of operations and cash flows for such periods presented. 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 Nathan's Annual Report on Form 10-K for the fiscal year ended March 25, 2001.

NOTE B - MIAMI SUBS ACQUISITION RESERVE

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 15 of those properties. We are continuing to market two of the remaining properties for sale and will terminate the lease for the last unit upon the lease expiration in May 2002. Since acquiring Miami Subs, we have accrued approximately $1,461,000 and made payments of approximately $1,216,000 for lease obligations and termination costs, as part of the acquisition, for units having total future minimum lease obligations of $7,680,000 with remaining lease terms of one year up to approximately 17 years. We may incur future cash payments, consisting primarily of future lease payments including costs and expenses associated with terminating additional leases that were not part of our divestiture plan.

NOTE C - EARNINGS PER SHARE

The following chart provides a reconciliation of information used in calculating the per share amounts for the thirteen and twenty-six week periods ended September 23, 2001 and September 24, 2000, respectively.

Thirteen weeks	Net Income		Number of Shares		Net Income Per Share	
	2001	2000	2001	2000	2001	2000
Basic EPS						
Basic calculation	$654	$933	7,065	7,065	$ .09	$ .13
Effect of dilutive employee stock options and warrats	-	-	15	90	-	-
Diluted EPS						
Diluted calculation	$654	$933	7,080	7,155	$ .09	$ .13

Twenty-six weeks	Net Income		Number of Shares		Net Income Per Share	
	2001	2000	2001	2000	2001	2000
Basic EPS						
Basic calculation	$1,616	$1,678	7,065	7,053	$ .23	$ .24
Effect of dilutive employee stock options and warrants	-	-	17	46	-	-
Diluted EPS						
Diluted calculation	$1,616	$1,678	7,082	7,099	$ .23	$ .24

Options and warrants to purchase 1,390,400 shares of Common Stock in each of the twenty-six week and thirteen week periods ended September 23, 2001, and options and warrants to purchase 1,071,100 and 1,033,600 shares of Common Stock in the twenty-six weeks and thirteen weeks ended September 24, 2000, respectively, were not included in the computation of diluted EPS because the exercise prices exceeded the average market price of common shares for the periods. These options and warrants were still outstanding at the end of the related periods.

NOTE D - CONTINGENCIES

Nathan's Famous, Inc. and Nathan's Famous Operating Corp. were named as two of three defendants in an action commenced in July 2001, in the Supreme Court of New York, Westchester County. According to the amended complaint, the plaintiffs, a minor and her mother, are seeking damages in the amount of $17 million against Nathan's Famous and Nathan's Famous Operating Corp. and one of Nathan's Famous' former employees claiming that the Nathan's entities failed to properly supervise minor employees, failed to monitor its supervisory personnel, and was negligent in hiring, retaining and promoting the individual defendant, who allegedly molested, harassed and raped the minor plaintiff, who was also an employee. The Nathan's entities intend to defend the action vigorously.

Teamspirit Enterprises, Inc. and Ross Kyriacethys ("Plaintiffs") commenced an action, as amended, in the Circuit Court of the Seventeenth Judicial Circuit, Broward County, Florida in March 2001 against the Estate of Konstantinos "Gus" Boulis and Miami Subs USA, Inc ("Miami Subs") claiming fraud, conspiracy to defraud, breach of contract and breach of the covenant of good faith and fair dealing in connection with Plaintiff's purchase of a Miami Subs franchise from Gus Boulis for $400,000. Plaintiffs claim that Miami Subs induced Plaintiffs to purchase the franchise by making warranties and representations that: (a) Boulis was a franchisee of Baskin-Robbins USA, Inc. ("Baskin-Robbins") and had the authority to grant and transfer that franchise to Plaintiffs; and (b) that the franchise location purchased by Plaintiffs was in full compliance with the requirements of the Americans With Disabilities Act. Plaintiffs also claim that Miami Subs failed to pay royalty revenues to Baskin-Robbins that were collected from Plaintiffs and were allegedly supposed to be remitted to Baskin-Robbins. Plaintiffs have not specified the amount of damages which they are seeking. Miami Subs intends to vigorously defend against these claims.

The Company was named as one of three defendants in an action commenced in June 1997, in the Supreme Court of New York, Queens County. According to the complaint, the plaintiff, a dentist, sought injunctive relief and damages in an amount exceeding $5 million against the landlord, one of the Company's franchisees and the Company claiming that the operation of a restaurant in a building in Long Island City created noxious and offensive fumes and odors that allegedly were injurious to the health of the plaintiff and his employees and patients, and interfered with, and irreparably damaged his practice. Plaintiff also claimed that the landlord fraudulently induced him to enter a lease extension by representing that the first floor of the building would be occupied by a non-food establishment. As a result of a motion for summary judgement by the Company and Nathan's Famous Systems, Inc. ("Systems") which as the actual franchisor was added to the action as a defendant, the Company was dismissed from the action. The action was settled in October 2001 by the payment of $7,000 to the plaintiff and in exchange, Systems has received a full release.

Elizabeth B. Jackson and Joseph Jackson commenced an action, in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida in September 2001 against Miami Subs and EKFD Corporation, a Miami Subs franchisee ("the franchisee") claiming negligence in connection with a slip and fall which allegedly occurred on the premises of the franchisee for unspecified damages.

Pursuant to the terms of the Miami Subs Franchise Agreement, the franchisee is obligated to indemnify Miami Subs and hold them harmless against claims asserted and procured an insurance policy which named Miami Subs as an additional insured. Miami Subs has denied any liability to Plaintiffs and has made demand upon the franchisee's insurer to indemnify and defend against the claims asserted. The insurer is presently assessing Miami Subs' demand and has not yet acknowledged its obligation to indemnify and provide a defense for Miami Subs.

NOTE - E - MIAMI SUBS TAX AUDIT

As of the date of acquisition, Miami Subs' tax returns reflected net operating loss carry-forwards of approximately $5.9 million which are available to reduce future taxable income through 2019 (subject to limitations imposed under the Internal Revenue Code regarding changes in ownership which limits utilization of $2.8 million of the carry-forwards on an annual basis to approximately $340,000). Miami Subs also has general business credit carry-forwards of approximately $274,000 which can be used to offset tax liabilities through 2010. Miami Subs' federal income tax returns for fiscal years 1991 through 1996, inclusive, have been examined by the Internal Revenue Service. The reports of the examining agent issued in connection with these examinations indicate that additional taxes and penalties totaling approximately $2.4 million are due for such years. The Company appealed substantially all of the proposed adjustments. In January 2001, the Miami Subs tax audit was tentatively settled with the IRS Appeals Office. If approved on review, the settlement will result in (a) an aggregate tax liability for the taxable years 1991 through 1996 of $101,520 and (b) the Company retaining net operating loss carry-forwards of approximately $3,200,000 (subject to limitations imposed under the Internal Revenue Code). In addition to the tax, interest will be due; the total amount of tax and interest will be less than $300,000. Nathan's has accrued $345,000 for this matter in the accompanying consolidated balance sheet. Due to the uncertain outcome of the IRS examination and Section 382 limitation, Nathan's has recorded a valuation allowance for the deferred tax asset related to Miami Subs carry-forwards. Pursuant to SFAS No. 109 "Accounting for Income Taxes", any future reduction in the acquired Miami Subs valuation allowance will reduce goodwill.

NOTE F - SALES OF RESTAURANTS

On May 1, 2001, pursuant to an order of condemnation, we sold a company-owned restaurant to the State of Florida for $1,475,000, net, and repaid the outstanding mortgage of approximately $793,000 plus accrued interest. We have appealed the value of this property and expect to have our claim mediated in November 2001. From May 1, 2001 through October 21, 2001, this restaurant was operated pursuant to a short term lease with the State of Florida. Additionally, on June 22, 2001, we sold our restaurant in the Paramus Park Mall to a franchisee for $400,000 in cash and concurrently entered into a sub-lease for the property.

NOTE G - RECLASSIFICATIONS

Certain reclassifications of prior period balances have been made to conform to the September 23, 2001 presentation.

NOTE H - RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("FAS 141") and No. 142 Goodwill and Other Intangible Assets ("FAS 142"). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, Nathan's is required to adopt FAS 142 effective in our next fiscal year, commencing April 1, 2002. We are currently evaluating the effect that adoption of the provisions of FAS 142 will have on our results of operations and financial position.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for

certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We are currently evaluating the effect of adoption on our financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). This statement supersedes FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This Statement retains the fundamental provisions of FAS 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The provisions of this statement are required to be adopted no later than fiscal years beginning after December 31, 2001, with early adoption encouraged. The Company is currently evaluating the impact of the adoption of FAS 144 of which the Company expects will be not material.

In September 2001, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001", which provides guidance on how the costs related to the terrorist attacks should be classified, how to determine whether an asset impairment should be recognized and how liabilities for losses and other costs should be recognized. The impact of adopting EITF Issue No. 01-10 and the events of September 11, 2001 did not have a material effect on the Company's consolidated financial statements.

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

Introduction

During the fiscal year ended March 26, 2000, we completed two acquisitions that provided us with two highly recognized brands. On April 1, 1999, we became the franchisor of the Kenny Rogers Roasters restaurant system by acquiring the intellectual property rights, including trademarks, recipes and franchise agreements of Roasters Corp. and Roasters Franchise Corp. On September 30, 1999, we acquired the remaining 70% of the outstanding common stock of Miami Subs Corporation we did not already own. Our revenues are generated primarily from operating company-owned restaurants and franchising the Nathan's, Kenny Rogers and Miami Subs restaurant concepts, licensing agreements for the sale of Nathan's products within supermarkets and selling products under Nathan's Branded Product Program. The Branded Product Program enables foodservice operators to offer Nathans' hot dogs and other proprietary items for sale within their facilities. In conjunction with this program, foodservice operators are granted a limited use of the Nathans' trademark with respect to the sale of hot dogs and certain other proprietary food items and paper goods.

In addition to plans for expansion, Nathan's has continued to capitalize on the co-branding opportunities within its existing restaurant system. To date, the Arthur Treacher's brand has been introduced within 133 Nathan's, Kenny Rogers Roasters and Miami Subs restaurants , the Nathan's brand has been added to the menu of 84 Miami Subs and Kenny Rogers restaurants, while the Kenny Rogers Roasters brand has been introduced into 77 Miami Subs and Nathan's restaurants. We have begun testing the Miami Subs brand in two company-owned Nathan's restaurants.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 15 of those properties. We continue to market two of those properties for sale and will terminate the lease for the last unit upon the lease expiration in May 2002. We also terminated 10 additional leases for properties outside of the divestiture plan. .

At September 23, 2001, our combined systems consisted of 24 company-owned units, 379 franchised or licensed units and over 1,400 Nathan's Branded Product points of sale that feature Nathan's world famous all-beef hot dogs, located in 41 states, the District of Columbia and 17 foreign countries. At September 23, 2001, our company-owned restaurant system included 16 Nathan's units, six Miami Subs units and two Kenny Rogers Roasters units, as compared to 18 Nathan's units, 8 Miami Subs units and two Kenny Rogers Roasters units at September 24, 2000. On October 21, 2001, the company-owned unit that operated under a short-term lease with the State of Florida since May 1, 2001, was permanently

closed.

Results of Operations

Thirteen weeks ended September 23, 2001 compared to September 24, 2000

Revenues

Total sales decreased by 4.3% or $408,000 to $9,085,000 for the thirteen weeks ended September 23, 2001 ("second quarter fiscal 2002") as compared to $9,493,000 for the thirteen weeks ended September 24, 2000 ("second quarter fiscal 2001"). Sales from the Branded Product Program increased by 17.1% to $1,253,000 for the second quarter fiscal 2002 as compared to sales of $1,070,000 in the second quarter fiscal 2001. Company-owned restaurant sales decreased 7.0% or $591,000 to $7,832,000 from $8,423,000 primarily due to operating fewer company-owned stores as compared to the second quarter fiscal 2001 and lower sales at two new restaurants that began operating during the prior fiscal year. The financial impact associated with the closed restaurants lowered restaurant sales by $769,000 and improved restaurant operating profits by $77,000 versus the fiscal 2001 period. Comparable restaurant sales (consisting of 15 Nathan's and six Miami Subs restaurants) increased by 5.2% versus the second quarter fiscal 2001 primarily due to increased sales at the Coney Island restaurant during the summer season.

Franchise fees and royalties decreased by 3.2% or $67,000 to $2,052,000 in the second quarter fiscal 2002 compared to $2,119,000 in the second quarter fiscal 2001. Franchise royalties decreased by $131,000 or 6.6% to $1,867,000 in the second quarter fiscal 2002 as compared to $1,998,000 in the second quarter fiscal 2001. Domestic franchise restaurant sales decreased by 17.4% to $45,723,000 in the second quarter fiscal 2002 as compared to $55,367,000 in the second quarter fiscal 2001. The majority of this decline is due to fewer franchised restaurants operating during the second quarter fiscal 2002 as compared to the second quarter fiscal 2001. At September 23, 2001, 379 franchised or licensed restaurants were operating as compared to 396 franchised or licensed restaurants at September 24, 2000. Franchise fee income derived from new openings and co-branding was $185,0000 in the second quarter fiscal 2002 as compared to $121,000 in the second quarter fiscal 2001. This increase was primarily attributable to the difference between the number of franchised units open between the two periods and the initial co-branding fees earned from existing restaurants within our system. During the second quarter fiscal 2002, 6 new franchised or licensed units opened and 8 units have been co-branded.

License royalties were $605,000 in the second quarter fiscal 2002 as compared to $658,000 in the second quarter fiscal 2001. This decline is attributable to reduced royalties from secondary license agreements for Nathan's products which were partially offset by higher royalties earned from increased sales by SMG, Inc., Nathans' licensee for the sale of Nathan's frankfurters within supermarkets and club stores.

Investment and other income was $43,000 in the second quarter fiscal 2002 versus $396,000 in the second quarter fiscal 2001. During the second quarter fiscal 2002, Nathans' investment income was approximately $172,000 lower than in the second quarter fiscal 2001 due primarily to differences in performance of the financial markets between the two periods which was partly offset by higher interest income. In the second quarter fiscal 2001, Nathan's recognized income of approximately $146,000 in connection with the introduction of a consolidated food distribution agreement.

Costs and Expenses

Cost of sales decreased by $150,000 from $6,035,000 in the second quarter fiscal 2001 to $5,885,000 in the second quarter fiscal 2002. During the second quarter fiscal 2002, restaurant cost of sales were lower than the second quarter fiscal 2001 by approximately $421,000. Restaurant cost of sales were reduced by approximately $525,000 as a result of operating fewer company- owned restaurants. Additionally, lower restaurant cost of sales at the two Kenny Rogers Roasters restaurants opened last year more than offset higher costs at our comparable restaurants which was due in part to the sales increase. The cost of restaurant sales at our comparable units as a percentage of restaurant sales was 60.3% in the second quarter fiscal 2002 as compared to 60.0% in the second quarter fiscal 2001. Higher costs of approximately $271,000 were incurred in connection with the Branded Product Program. During most of the second quarter fiscal 2002, commodity prices of our primary meat products were at their highest levels in recent years causing the majority of the increase. We have raised our retail prices in select situations in an attempt to partially offset these increases. In recent weeks we have seen these costs lowered to their historical levels. Should costs escalate again for an extended period, we may determine to further examine our pricing structure to attempt to reduce the impact on our

margins.

Restaurant operating expenses decreased by $198,000 from $2,216,000 in the second quarter fiscal 2001 to $2,018,000 in the second quarter fiscal 2002. Restaurant operating costs were reduced by approximately $320,000 as a result of operating fewer restaurants. Restaurant operating expenses of the two

restaurants opened last year, which included higher costs attributable to their openings, were $21,000 lower during the second quarter of fiscal 2002. These reductions in restaurant operating expenses were partially offset by an increase of approximately $122,000 at the comparable restaurants primarily due to higher energy and insurance costs.

Depreciation and amortization decreased by $40,000 from $434,000 in the second quarter fiscal 2001 to $394,000 in the second quarter fiscal 2002. Lower depreciation expense of operating fewer company-owned restaurants versus the second quarter fiscal 2001 was partially offset by additional depreciation expense attributable to last year's capital spending.

Amortization of intangibles decreased by $18,000 from $238,000 in the second quarter fiscal 2001 to $220,000 in the second quarter fiscal 2002. Amortization of intangibles decreased as a result of the final purchase price allocation of the Miami Subs acquisition.

General and administrative expenses decreased by $87,000 to $2,051,000 in the second quarter fiscal 2002 as compared to $2,138,000 in the second quarter fiscal 2001. The decrease in general and administrative expenses was due primarily to lower personnel and incentive compensation expense of approximately $78,000.

Interest expense was $48,000 during the second quarter fiscal 2002 as compared to $74,000 during the second quarter fiscal 2001. The reduction in interest expense relates primarily to the repayment of outstanding debt between the two periods.

Income Tax Expense

In the second quarter fiscal 2002, the income tax provision was $515,000 or 44.1% of income before income taxes as compared to $598,000 or 39.1% of income before income taxes in the second quarter fiscal 2001. In January 2001, we reached a tentative agreement to settle the Miami Subs' Internal Revenue Service audit. Based upon this agreement, we determined that certain amortization expense, originally expected to be tax deductible, would be disallowed. Accordingly, our fiscal 2002 income tax expense rate is higher than that of the second quarter fiscal 2001 to reflect the non-deductibility of such amortization expense. The impact of this non-deductible amortization on the prior fiscal year was recorded during the third quarter fiscal 2001.

Twenty-six weeks ended September 23, 2001 compared to September 24, 2000

Revenues

Total sales decreased by 7.6% or $1,452,000 to $17,673,000 for the twenty-six weeks ended September 23, 2001 ("fiscal 2002 period") as compared to $19,125,000 for the twenty-six weeks ended September 24, 2000 ("fiscal 2001 period"). Sales from the Branded Product Program increased by 25.5% or $506,000 to $2,491,000 for the fiscal 2002 period as compared to sales of $1,985,000 in the fiscal 2001 period. Company-owned restaurant sales decreased 11.4% or $1,958,000 to $15,182,000 from $17,140,000 primarily due to operating eight fewer company-owned stores as compared to the prior fiscal period and lower sales at the two new restaurants that began operating during the fiscal 2001 period. These reductions were partially offset by sales from a restaurant that was closed for renovation during the fiscal 2001 period and increased sales at the Coney Island restaurant during the summer season. The unit reduction is the result of our franchising two company-owned restaurants, transferring one company-owned restaurant to a franchisee pursuant to a management agreement, closing four unprofitable company-owned units (including three Miami Subs restaurants pursuant to our divesture plan) and closing one unit due to its lease expiration. The financial impact associated with these eight restaurants lowered restaurant sales by $1,821,000 and improved restaurant operating profits by $180,000 versus the fiscal 2001 period. Comparable restaurant sales (consisting of 15 Nathan's and six Miami Subs restaurants) increased by 1.4% versus the fiscal 2001 period.

Franchise fees and royalties decreased by 3.8% or $167,000 to $4,241,000 in the fiscal 2002 period compared to $4,408,000 in the fiscal 2001 period. Franchise royalties decreased by $384,000 or 9.4% to $3,714,000 in the fiscal 2002 period as compared to $4,098,000 in the fiscal 2001 period. Domestic franchise restaurant sales decreased by 10.8% to $96,665,000 in the fiscal 2002 period as compared to $108,408,000 in the fiscal 2001 period. The majority of this decline is due to fewer franchised restaurants operating during the fiscal

2002 period as compared to the fiscal 2001 period. At September 23, 2001, 379 franchised or licensed restaurants were operating as compared to 396 franchised or licensed restaurants at September 24, 2000. Franchise fee income derived from new openings and co-branding was $527,000 in the fiscal 2002 period as compared to $310,000 in the fiscal 2001 period. This increase was primarily attributable to the fees earned from the co-branding initiative within the existing restaurant system. During the fiscal 2002 period, 13 new franchised or licensed units opened and 37 units have been co-branded.

License royalties were $1,312,000 in the fiscal 2002 period as compared to $1,299,000 in the fiscal 2001 period. This increase is attributable to increased sales by SMG, Inc., Nathans' licensee for the sale of Nathan's frankfurters within supermarkets and club stores which was partially offset by reduced royalties from other license agreements for Nathan's products.

Investment and other income was $435,000 in the fiscal 2002 period versus $733,000 in the fiscal 2001 period. During the fiscal 2002 period, Nathan's recognized a net gain of $93,000 in connection with the sale of a company-owned restaurant to a franchisee. During the fiscal 2002 period, Nathans' investment income was approximately $28,000 lower than in the fiscal 2001 period due primarily to differences in performance of the financial markets between the two periods. In the fiscal 2001 period, Nathan's recognized income of approximately $367,000 in connection with the introduction of a consolidated food distribution agreement.

Costs and Expenses

Cost of sales decreased by $759,000 from $12,244,000 in the fiscal 2001 period to $11,485,000 in the fiscal 2002 period. During the fiscal 2002 period, restaurant cost of sales were lower than the fiscal 2001 period by approximately $1,370,000. Restaurant cost of sales were reduced by approximately $1,226,000 as a result of operating fewer company-owned restaurants. Additionally, lower cost of sales at the two Kenny Rogers Roasters restaurants opened last year more than offset higher costs at our comparable restaurants. Notwithstanding the lower costs and expenses of the two Kenny Rogers Roasters restaurants, these restaurants continue to underperform. We are seeking to increase sales at the two Kenny Rogers Roasters and other restaurants while attempting to further reduce our costs of sales and may examine our other alternatives with respect to the two Kenny Rogers Roasters restaurants. The cost of restaurant sales at our comparable units as a percentage of restaurant sales was 60.6% in the fiscal 2002 period as compared to 60.1% in the fiscal 2001 period due primarily to higher food and labor costs. Higher costs of approximately $611,000 were incurred in connection with the growth of our Branded Product Program and higher product costs incurred for the majority of the fiscal 2002 period. During most of the fiscal 2002 period, commodity prices of our primary meat products were at their highest levels in recent years causing the majority of the increase. We have raised our retail prices in select situations in an attempt to partially offset these increases. In recent weeks we have seen these costs lowered to their historical levels. Should costs escalate again for an extended period, we may determine to further examine our pricing structure to attempt to reduce the impact on our margins.

Restaurant operating expenses decreased by $702,000 from $4,673,000 in the fiscal 2001 period to $3,971,000 in the fiscal 2002 period. Restaurant operating costs were lower in the fiscal 2002 period by approximately $775,000, as compared to the fiscal 2001 period as a result of operating fewer restaurants. Restaurant operating expenses of the two restaurants opened last year, which included higher costs attributable to their openings, were $92,000 lower during the fiscal 2002 period. These reductions in restaurant operating expenses were partially offset by an increase of approximately $138,000 at the comparable restaurants which were primarily driven by higher energy and insurance costs.

Depreciation and amortization decreased by $52,000 from $866,000 in the fiscal 2001 period to $814,000 in the fiscal 2002 period. Lower depreciation expense of operating fewer company-owned restaurants versus the fiscal 2001 period was partially offset by additional depreciation expense attributable to last year's capital spending.

Amortization of intangibles decreased by $33,000 from $475,000 in the fiscal 2001 period to $442,000 in the fiscal 2002 period. Amortization of intangibles decreased as a result of the final purchase price allocation of the Miami Subs acquisition.

General and administrative expenses decreased by $209,000 to $4,170,000 in the fiscal 2002 period as compared to $4,379,000 in the fiscal 2001 period. The decrease in general and administrative expenses was due primarily to lower personnel and incentive compensation expense of approximately $224,000.

Interest expense was $107,000 during the fiscal 2002 period as compared to $146,000 during the fiscal 2001 period. The reduction in interest expense relates primarily to the repayment of outstanding debt between the two periods.

Other income of $210,000 in the fiscal 2002 period represents the reversal of a previously recorded litigation provision for an award that was settled, upon appeal, in our favor.

Income Tax Expense

In the fiscal 2002 period, the income tax provision was $1,266,000 or 43.9% of income before income taxes as compared to $1,104,000 or 39.7% of income before income taxes in the fiscal 2001 period. In January 2001, we reached a tentative agreement to settle the Miami Subs' Internal Revenue Service audit. Based upon this agreement, we determined that certain amortization expense, originally expected to be tax deductible, would be disallowed. Accordingly, our fiscal 2002 income tax expense rate is higher than that of the fiscal 2001 period to reflect the non-deductibility of such amortization expense. The impact of this non-deductible amortization on the prior fiscal year was recorded during the third quarter fiscal 2001.

Liquidity and Capital Resources

Cash and cash equivalents at September 23, 2001 aggregated $4,494,000, increasing by $169,000 during the fiscal 2002 period. At September 23, 2001, marketable securities and investment in limited partnership increased by $1,694,000 from March 25, 2001 to $6,342,000 and net working capital increased to $7,439,000 from $5,210,000 at March 25, 2001. Cash and cash equivalents at September 23, 2001 included $301,000 held on behalf of the Miami Subs Advertising Funds. A corresponding accrual has been recorded within accrued expenses and other current liabilities.

Cash used in operations of $406,000 in the fiscal 2002 period is primarily attributable to net income of $1,616,000, non-cash charges of $1,339,000, including depreciation and amortization of $1,256,000 and provision for doubtful accounts of $83,000 in addition to a decrease in prepaid and other current assets of $658,000, which were more than offset by decreases in accounts payable and accrued expenses of $1,851,000, an increase in marketable securities and investment in limited partnership of $1,694,000,an increase in inventories of $153,000, an increase in notes and accounts receivable of $47,000 and a decrease in other non current liabilities of $188,000.

Cash provided by investing activities of $1,831,000 is comprised primarily of proceeds from the sale of two company-owned restaurants totaling $1,875,000. On May 1, 2001, pursuant to an order of condemnation, we sold a company-owned restaurant to the State of Florida for $1,475,000, net, and repaid the outstanding mortgage of approximately $793,000 plus accrued interest. We have appealed the value of the property that was condemned by the State of Florida and expect to have our claim mediated in November 2001. On June 22, 2001, we also sold our restaurant in the Paramus Park Mall to a franchisee for $400,000 in cash and concurrently entered into a sub-lease for the property. Additionally, $673,000 was expended relating to capital improvements of the company- owned restaurants and other fixed asset additions and was partially offset by repayments on notes receivable of $629,000.

Cash used in financing activities of $1,256,000 represents repayments of notes payable and obligations under capital leases. The majority of the repayments arose from the repayment of an outstanding mortgage of approximately $793,000 plus accrued interest in connection with the condemnation of a company-owned restaurant by the State of Florida.

In connection with our acquisition of Miami Subs, we determined that up to 18 underperforming restaurants would be closed pursuant to our divestiture plan. To date, we have terminated leases on 15 of those properties. We are continuing to market two of the remaining properties for sale and will terminate the lease for the last unit upon the lease expiration in May 2002. As of September 23, 2001, we have accrued approximately $1,461,000 and made payments of approximately $1,216,000 for lease obligations and termination costs, as part of the acquisition, for units with total future minimum lease obligations of $7,680,000 with remaining lease terms of one year up to approximately 17 years. We may incur future cash payments, consisting primarily of future lease payments including costs and expenses associated with terminating additional leases, that were not part of our divestiture plan.

On September 14, 2001, Nathan's was authorized to purchase up to 1 million shares of its common stock. Purchases will be made from time to time, depending on market conditions, in open market or privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the repurchases. We expect to fund these stock repurchases from our operating cash flow.

We expect that we will make additional investments in certain existing restaurants in the future and that we will fund those investments from our operating cash flow. We do not expect to incur significant capital expenditures to develop new company-owned restaurants in our current fiscal year.

Management believes that available cash, marketable investment securities, and internally generated funds should provide sufficient capital to finance our operations for at least the next twelve months. We maintain a $7,500,000 uncommitted bank line of credit and have not borrowed any funds to date under this line of credit.

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: economic, weather, legislative and business conditions; 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.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

Nathan's Famous, Inc. and Nathan's Famous Operating Corp. were named as two of three defendants in an action commenced in July 2001, in the Supreme Court of New York, Westchester County. According to the amended complaint, the plaintiffs, a minor and her mother, are seeking damages in the amount of $17 million against Nathan's Famous and Nathan's Famous Operating Corp. and one of Nathan's Famous' former employees claiming that the Nathan's entities failed to properly supervise minor employees, failed to monitor its supervisory personnel, and was negligent in hiring, retaining and promoting the individual defendant, who allegedly molested, harassed and raped the minor plaintiff, who was also an employee. The Nathan's entities intend to defend the action vigorously.

Teamspirit Enterprises, Inc. and Ross Kyriacethys ("Plaintiffs") commenced an action, as amended, in the Circuit Court of the Seventeenth Judicial Circuit, Broward County, Florida in March 2001 against the Estate of Konstantinos "Gus" Boulis and Miami Subs USA, Inc ("Miami Subs") claiming fraud, conspiracy to defraud, breach of contract and breach of the covenant of good faith and fair dealing in connection with Plaintiff's purchase of a Miami Subs franchise from Gus Boulis for $400,000. Plaintiffs claim that Miami Subs induced Plaintiffs to purchase the franchise by making warranties and representations that: (a) Boulis was a franchisee of Baskin-Robbins USA, Inc. ("Baskin-Robbins") and had the authority to grant and transfer that franchise to Plaintiffs; and (b) that the franchise location purchased by Plaintiffs was in full compliance with the requirements of the Americans With Disabilities Act. Plaintiffs also claim that Miami Subs failed to pay royalty revenues to Baskin-Robbins that were collected from Plaintiffs and were allegedly supposed to be remitted to Baskin-Robbins. Plaintiffs have not specified the amount of damages which they are seeking. Miami Subs intends to vigorously defend against these claims.

The Company was named as one of three defendants in an action commenced in June 1997, in the Supreme Court of New York, Queens County. According to the complaint, the plaintiff, a dentist, sought injunctive relief and damages in an amount exceeding $5 million against the landlord, one of the Company's franchisees and the Company claiming that the operation of a restaurant in a building in Long Island City created noxious and offensive fumes and odors that allegedly were injurious to the health of the plaintiff and his employees and patients, and interfered with, and irreparably damaged his practice. Plaintiff also claimed that the landlord fraudulently induced him to enter a lease extension by representing that the first floor of the building would be occupied by a non-food establishment. As a result of a motion for summary judgement by the Company and Nathan's Famous Systems, Inc. ("Systems") which as the actual franchisor was added to the action as a defendant, the Company was dismissed from the action. The action was settled in October 2001 by the payment of $7,000 to the plaintiff and in exchange, Systems has received a full release.

Elizabeth B. Jackson and Joseph Jackson commenced an action, in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida in September 2001 against Miami Subs and EKFD Corporation, a Miami Subs franchisee ("the franchisee") claiming negligence in connection with a slip and fall which allegedly occurred on the premises of the franchisee for unspecified damages. Pursuant to the terms of the Miami Subs Franchise Agreement, the franchisee is obligated to indemnify Miami Subs and hold them harmless against claims asserted and procured an insurance policy which named Miami Subs as an additional insured. Miami Subs has denied any liability to Plaintiffs and has made demand upon the franchisee's insurer to indemnify and defend against the claims asserted. The insurer is presently assessing Miami Subs' demand and has not yet acknowledged its obligation to indemnify and provide a defense for Miami Subs.

Item 4: Submission of Matter to a Vote of Security Holders

(a) The Registrant held its Annual Meeting of Stockholders on September 14, 2001.

(b) Seven Directors were elected at the Annual Meeting to serve until the Annual Meeting of Stockholders in 2002. The names of these Directors and votes cast in favor of their election and shares withheld are as follows:

NAME	FOR	WITHHELD
Howard M. Lorber	4,710,853	1,419,758
Wayne Norbitz	4,710,866	1,419,745
Donald Perlyn	4,710,853	1,419,758
Robert J. Eide	4,711,195	1,419,416
Brian Genson	4,711,228	1,419,383
Barry Leistner	4,710,878	1,419,733
A.F. Petrocelli	4,710,853	1,419,758

(c) The Company's shareholders approved the 2001 Stock Option Plan authorizing the issuance of options to purchase up to 350,000 shares of common stock. The votes cast in favor of adopting the plan and shares withheld or abstained are as follows:

	FOR	WITHHELD	ABSTAINED
Adopt 2001 Stock Option Plan	4,427,652	1,683,131	19,825

(d) Not applicable.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Master Distribution Agreement with Marriott Distribution Services, Inc.

(b) No reports on Form 8-K were filed during the quarter ended September 23, 2001.

Item 7A. Qualitative and Quantitative Disclosures About Market Risk

Nathan's has historically invested its cash and cash equivalents in short term, fixed rate, highly rated and highly liquid instruments which are reinvested when they mature throughout the year. Although Nathan's existing investments in cash equivalents are not considered at risk with respect to changes in interest rates or markets for these instruments, Nathan's rate of return on short-term investments could be affected at the time of reinvestment as a result of intervening events.

Nathan's has invested its marketable investment securities in intermediate term, fixed rate, highly rated and highly liquid instruments and a highly liquid investment limited partnership that invests principally in equities. These investments are subject to fluctuations in interest rates and the performance of the equity markets.

The interest rates on Nathan's borrowings are generally determined based upon prime rate and may be subject to market fluctuation as the prime rate changes as determined within each specific agreement. Nathan's does not anticipate entering into interest rate swaps or other financial instruments to hedge its borrowings.

The cost of commodities are subject to market fluctuation. Nathan's has not attempted to hedge against fluctuations in the prices of the commodities it purchases using future, forward, option or other instruments. As a result, Nathan's future commodities purchases are subject to changes in the prices of such commodities.

Foreign franchisees generally conduct business with Nathan's and make payments to Nathan's in United States dollars, reducing the risks inherent with changes in the values of foreign currencies. As a result, Nathan's has not purchased futures contracts, options or other instruments to hedge against changes in values of foreign currencies.

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: November 6, 2001 By: /s/Wayne Norbitz

Wayne Norbitz
President and Chief Operating Officer
(Principal Executive Officer)

Date: November 6, 2001 By: /s/Ronald G. DeVos

Ronald G. DeVos
Vice President - Finance
and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.1

DISTRIBUTION AGREEMENT

THIS DISTRIBUTION AGREEMENT (hereinafter the "Agreement") is made as of the 10th day of October, 2001, by and between MARRIOTT DISTRIBUTION SERVICES, INC. (hereinafter "Marriott"), a Delaware corporation having its principal offices at 10400 Fernwood Road, Bethesda, Maryland 20817 (mailing address: Marriott Drive, Washington, D.C. 20058), and NATHAN'S FAMOUS, INC. (hereinafter "Buyer"), a Delaware corporation having its principal offices at 1400 Old Country Road, Suite 400, Westbury, NY 11590.

Recitals

WHEREAS, Marriott operates certain distribution centers from which it distributes food and related supplies to foodservice operations which are located within the service area of such distribution centers; and

WHEREAS, Buyer presently operates certain restaurants listed on Exhibit A in which it or an affiliate owns a controlling interest (hereinafter the "Company Units") and licenses and permits others to operate or manage certain restaurants listed on Exhibit A-1 (hereinafter the "Franchised Units") under the service mark "Nathan's Famous, Kenny Rogers Roasters and Miami Subs". Company Units and Franchised Units shall include additional locations opened within the Service Area of the Distribution Centers (as those terms are defined hereinafter) which have the same service requirements, characteristics and economics and are sometimes hereinafter collectively referred to as the "Units"; and

WHEREAS, Marriott and Buyer desire to enter into a distribution services agreement pursuant to which Marriott will provide certain warehousing and distribution services in connection with Buyer's operation of the Company Units and Marriott will offer to provide certain warehousing and distribution services in connection with the operation of the Franchised Units by various franchisees.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties agree as follows:

1. Definitions. As used in this Agreement, the following capitalized terms shall have the meanings indicated:

   a. "Accounting Period" shall mean each of Marriott's thirteen (13) four-week accounting periods.

   b. "Agreed Markup Per Case" shall mean for each full or partial case of Product Supplied by Marriott to the Units, the amount set forth in Section 4(a) payable by the Units to Marriott in excess of the Cost of the Product, which amount is intended as a distribution fee for Marriott to Supply Products to the Units.

   c. "Average Cases Per Delivery" shall mean the sum of the number of full or partial cases of Products delivered to all Units in the aggregate during a specified period of time divided by the number of deliveries made to all Units in the aggregate during such period of time, in each such case excluding any special deliveries.

   d. "Cost" shall mean an amount for each Product based upon the sum of the following: (i) the latest invoice price (which invoice price shall reflect any on-invoice promotional and advertising allowances, free goods, rebates, quantity discounts, and any other vendor provided discounts and allowances, except cash discounts and distributor rebates and allowances as described in Section 5 below) correctly billed to Marriott by a third party for a Product Supplied by Marriott to the Units; (ii) plus a proportional share of the transportation charge incurred by Marriott to transport the Product to the Distribution Centers, or in those cases where Marriott picks up the Product from a Supplier or arranges for freight consolidation, the transportation charge Marriott would have been charged by the supplier to deliver the Product to the Distribution Centers; (iii) plus the actual charge per Product that Marriott is required to pay for procurement services associated with obtaining contract pricing on Products for which Buyer has not obtained a contracted price from the supplier; (iv) plus any applicable sales, use, excise, or other taxes, whenever assessed. In defining Cost in the manner described, it is the intention of the parties as near as is practical to charge and pay for the actual price paid for a Product by Marriott taking into account that deliveries to Marriott from suppliers occur at different prices, due to the effective date of such price changes, from time to time.

e. "Delivered Cost" shall have the meaning set forth in Section 4.

f. "Diesel Index" shall mean the index entitled "EIA Retail On-Highway Diesel Prices - National U.S. Average" published from time to time by the Energy Information Agency of the Department of Energy (as currently set forth at www.eia.doe.gov), or in the event that such index is no longer available, a substantially similar index that comes to be relied upon in its place.

g. "Distribution Center(s)" shall mean the warehouse facilities operated by Marriott as any of the same may be relocated or supplemented from time to time.

h. "Pricing Period" shall have the meaning set forth in Section 4.

i. "Proprietary Items" shall mean Products which a Distribution Center stocks exclusively for the Units or for which larger than normal inventories are maintained by a Distribution Center or commitments entered into primarily for the Units.

j. "Products" shall mean Proprietary Items and all other goods within the categories of food, beverages, and supplies described on Exhibit B and stocked by the Distribution Centers on the date hereof, except those goods that are customarily distributed "store door delivery" by third parties selected by Buyer, and such additional goods as the parties may agree in writing to add.

k. "Service Area" shall mean the core geographic area as determined by Marriott from time to time within which are located the preponderance of the Units to which the Distribution Center's normally deliver goods.

l. "Service Level" shall mean the total number of items actually received, in relationship to the total number of items ordered.

m. "Supply(ing)(ied)" shall have the meaning set forth in Section 2.

2. Distribution Services.

a. Company Units. During the term of this Agreement, Buyer shall purchase Products for the Company Units from Marriott, and Marriott shall purchase, warehouse, and distribute for and sell Products to Buyer for such Company Units (hereinafter collectively "Supply(ing)(ied)"), regardless of the name under which they are operated, so long as there is no change in the cost of Supplying the Company Units resulting from a material change in the number or type of menu items or in the service requirements from the manner in which the Company Units are being operated on the date hereof. The Units will be responsible for any increased costs resulting from material changes in the overall average frequency or manner of delivery requested by the Units.

b. Franchised Units. During the term of this Agreement, Marriott agrees to offer to Supply any Franchised Units within the Service Area having economic and service characteristics similar to those of the Company Units on essentially the same terms and conditions as herein contained, provided such Franchised Unit shall (i) have established and shall have maintained its creditworthiness to Marriott's satisfaction, and (ii) does not have any other contractual obligations under any other distribution agreement of any kind or nature relating to the Products hereunder. Buyer agrees to notify any Franchised Unit that meets the foregoing requirements that any purchases of Products from Marriott shall be governed by the terms and conditions of this Agreement. Buyer represents and warrants that Franchised Units are required to purchase all of their Proprietary Items under Buyer's Franchise Agreement and vendor contracts, and that Buyer shall notify Marriott of any material change to the Franchise Agreement or vendor contract regarding this purchase requirement. The separate understanding with any Franchised Unit may provide for a security deposit or different payment terms such as cash on delivery or cash in advance, based upon the creditworthiness of an individual Franchised Unit. Any adjustments to the pricing applicable to the Company Units under the terms of this Agreement shall be made as well to the pricing for any Franchised Unit. Authorized substitutions and Proprietary Items shall be determined by Buyer, and wherever in this Agreement any other approvals, authorizations,

or consents are required to be obtained from Buyer, such terms shall mean exclusively Buyer and any franchisee participating in the program established by this Agreement agrees to be bound by such determination. Buyer agrees to cooperate with Marriott by advising Marriott in a timely manner of (i) any plans to convert a Company Unit to a Franchised Unit or a Franchised Unit to a Company Unit and (ii) any credit or compliance issues concerning a Franchised Unit that comes to Buyer's attention. Marriott acknowledges that Buyer will not be responsible for payment for Products Supplied to Franchised Units.

c. All Units. Deliveries to the Units will be made two (2) times per week on the days of the week and at times of the day as mutually determined by Marriott and Buyer. All deliveries shall be commenced prior to 11:00 a.m. or after 2:00 p.m. unless otherwise agreed upon by the Unit. Initially, Marriott representatives from each Distribution Center will contact representatives of the Units served by each respective Distribution Center for the purpose of notifying the Units of the proposed routing schedules. The delivery "window" for such established delivery schedules shall be between one (1) hour prior to and one (1) hour after such established delivery schedules. In the event such delivery is delayed beyond Marriott's control, Marriott shall use its best efforts under the circumstances to notify the Unit and establish an alternate delivery schedule. Saturday and Sunday deliveries will be made at the discretion of the appropriate Distribution Center. During the normal business hours of the Units deliveries will be made inside the delivery door of the Units with reasonable assistance (inside of the Units) provided by the Units, and the Units will be responsible for putting the Products away in the appropriate dry, cooler, or freezer storage area. Marriott will be responsible for placing the Products within the appropriate dry, cooler, or freezer storage area for deliveries made before or after the normal business hours of the Units if no employee of the Unit is present at the time of delivery, however, Marriott will not be responsible for shelving or rotating stock. The Units shall be responsible for (i) keeping the delivery door and storage aisles free of debris and obstructions to permit Marriott free access during deliveries and (ii) ensuring there is sufficient area for the delivery vehicle to park adjacent to the delivery door. Marriott reserves the right to change the manner in which it Supplies the Units, provided that the change is made at the same time for a majority of Marriott's business locations within the Service Area and does not have a material adverse effect on the quality of goods and services provided Buyer.

d. Ordering and Delivery. Ordering and Delivery . Orders shall be placed by the Units via Marriott-provided toll-free (800) phone numbers using (i) Marriott's automated touch-tone order entry system or (ii) a PC terminal automated entry system (the hardware to be provided by the Units and Instill or comparable software to be provided by Marriott at its actual cost), no later than the established order cut off time for the respective Distribution Center two (2) days (also referred to as a "skip day") prior to the scheduled delivery. At Marriott's option, deliveries during the normal business hours of the Units shall be (i) checked in jointly by Marriott's driver of the delivery vehicle and an employee at the Unit (both of whom are to note on the invoice any items shorted or damaged), or (ii) made on an honor system. Under the honor system Marriott agrees to replace those items identified within twenty-four (24) hours after delivery as shorted or damaged. Marriott reserves the right to require that all Products be checked in jointly, particularly at any Units reporting an unusual number of shorted or damaged items under the honor system. Shorted items which are Proprietary Items shall be delivered at the cost of the party responsible for the shortage within twenty-four (24) hours of such request using a method of delivery approved by Marriott. Shorted items, other than Proprietary Items, shall be delivered upon reasonable request, taking into consideration the item requested and cost of the method of such delivery, at the cost of the party responsible for the shortage within twenty-four (24) hours of such request. In the event Marriott, in its reasonable discretion, determines that the requested item and the cost of delivery is unreasonable, the parties shall agree upon an alternative method of delivery and time of delivery which exceeds the twenty-four (24) hour objective. The invoice shall be deemed conclusive proof of delivery of the items listed thereon if (i) no employee of the Unit is present at the time of delivery or delivery is made under the honor system and Marriott is not notified of the shorted or damaged items within twenty-four (24) hours, or (ii) items are checked in jointly and no shorted or damaged items are noted on the invoice at the time of delivery. Marriott shall ensure that subsequent billings reflect a credit for shorted or damaged items noted on the invoice. The Units may from time to time request that Marriott deliver to the Units specially requested Products outside of the normal ordering and delivery schedule. The Units shall be responsible to pay Marriott the

Delivered Cost of such specially requested Products plus (i) Twenty-five Dollars ($25.00) if shipped as an unscheduled delivery to the Unit by a Marriott delivery vehicle scheduled to be in the vicinity of the Unit, (ii) One Hundred Dollars ($100.00) if shipped by an unscheduled Marriott delivery vehicle specifically dispatched to the Unit, or (iii) Marriott's actual shipping cost plus Twenty-Five Dollars ($25.00) if shipped via a common carrier. The Units shall be responsible for a restocking fee of Three Dollars and Fifty Cents ($3.50) per case for Products returned to the Distribution Center due to an error by the Units and a late fee of Ten Dollars ($10.00) per order for any orders accepted by a Distribution Center after the established order cut off time. Notwithstanding the foregoing,

the Unit and the Distribution Center General Manager, upon mutual agreement, may waive any such special order or restocking fees for up to three (3) instances per contract year.

e. Phase In Schedule. Deliveries will begin for the Units to be Supplied by the respective Distribution Centers on the date specified opposite each of the Distribution Centers listed below:

Distribution Center	Date(s)
Groveland, FL	November 2001
Los Alamitos, CA	No later than November 2002
All others	November - December 2001

3. Term. The initial term of this Agreement shall commence on the 1st day of November, 2001, and shall remain in effect for a period of two (2) years unless earlier terminated in accordance with the terms hereof. After expiration of the initial term, this Agreement automatically shall renew for successive renewal terms of one (1) year each, unless terminated by either party by written notice to the other given not less than one hundred twenty (120) days prior to the end of the then current term.

4. Price.

a. Delivered Cost. Buyer, for the Company Units, and the respective franchisee for the Franchised Units, shall pay to Marriott for the goods and services provided hereunder the Delivered Cost of all Products Supplied by Marriott to the Units. "Delivered Cost" as used herein for full or partial cases of Products (based upon cases as currently configured) shall mean Cost plus the appropriate Agreed Markup Per Case, which initially shall be the amount set forth below opposite the respective Average Cases Per Delivery bracket.

Average Cases Per Delivery	Agreed Markup Per Case	Percent (%) Markup Per Case
121 cases +	$2.25	8.9%
101 to 120	$2.30	9.1%
81 to 100	$2.40	9.5%
71 to 80	$2.60	10.3%
61 to 70	$3.16	12.5%
51 to 60	$3.79	15.0%
Below 51	$3.79 plus $60.00	15.0% plus $60.00

After the initial nine (9) Accounting Periods of this Agreement, the parties shall "true up" all purchases made during the final six (6) Accounting Periods of the initial nine (9) Accounting Periods to the $2.40 Agreed Markup Per Case (9.5% Markup Per Case) of the established average case cost of $25.28. Prior to the beginning of each subsequent period of six (6) Accounting Periods (each, a "Pricing Period"), using data from the last completed Pricing Period, Marriott shall determine the appropriate Agreed Markup Per Case at which the Units will be invoiced for the upcoming Pricing Period based upon the bracket in which the Average Cases Per Delivery falls for all Units in the aggregate. In making this determination, Marriott shall calculate whether there is a variance between the Agreed Markup Per Case utilized during the current Pricing Period and the Agreed Markup Per Case that would have been applicable based upon a calculation of the Average Cases Per Delivery using the actual data from the last Pricing Period. In the event there is such a variance, the Agreed Markup Per Case for each respective bracket shall be adjusted for the upcoming Pricing Period to take into account the amount Delivered Cost was overstated or understated, as the case may be. In the event Delivered Cost was overstated or understated by any amount during the last Pricing Period (or portion thereof) of the term of this Agreement, Marriott shall deliver a check to Buyer (for Buyer and the respective franchisees) or Buyer shall deliver a check to Marriott for Buyer's Company Units only, and each respective franchisee shall be responsible to deliver a check to Marriott for its respective number of Franchised Units within ten (10) days after such amount is determined by Marriott.

b. Price Adjustment . The Agreed Markup Per Case for each respective bracket shall be adjusted after the first (1st) year of the term of this Agreement and for each year thereafter by multiplying the most recent Agreed Markup Per Case by the "Percentage Change" (hereinafter defined) in the "Price Index" (hereinafter defined).

(1) "Price Index" as used herein shall mean the Consumer Price Index for All Urban Consumers (CPI-U), U.S. City Average, base period 1982-84 = 100, specified for "All items", as issued by the Bureau of Labor Statistics of the United States Department of Labor.

(2) "Percentage Change" as used herein shall mean the percentage increase in the Price Index represented by a fraction, the numerator of which shall be the latest Price Index available during the month prior to the last full month of the currently expiring adjustment period and the denominator of which shall be the Price Index reported for the month which was two (2) months before the currently expiring adjustment period commenced (or such earlier month as may be required to base the calculation on a full twelve month period, or multiple thereof).

(3) In the event that 1982-84 = 100 is no longer used as the basis of calculation of the Price Index, or if a substantial change is made in the terms or number of items contained in the Price Index, then the Price Index shall, if the data required therefor is readily available, be adjusted to the figure that would have been arrived at had the manner of computing the Price Index as in effect at the date of this Agreement not been altered. In the event such Price Index (or a successor or substitute index) or such data is not available, a reliable governmental or non-partisan publication evaluating the information theretofore used in determining the Price Index shall be used.

c. Business Data . Buyer hereby represents that the data and other information set forth on Exhibit C attached hereto and made a part hereof, accurately reflects the business of the Units to be covered by the terms of this Agreement as such business is currently being operated. Marriott and Buyer agree that in the event that the six (6) month review discloses a variance from the data and information set forth on Exhibit C, the Agreed Markup Per Case will be adjusted accordingly.

d. Taxes and Fuel. In the event that during the term of this Agreement there is any increase in taxes or a surcharge on fuel or utilities, or an extraordinary increase in fuel or utility rates, Marriott and Buyer agree there will be a commensurate increase in the Agreed Markup Per Case to cover such increased costs which adjustment shall be part of the Pricing Period adjustment in Section 4(a) . With respect to increases or decreases in fuel rates, if the average Diesel Index during such Pricing Period increases or decreases $0.25 or more compared to a base fuel cost of $1.39, then the applicable Agreed Markup Per Case for the immediately following Pricing Period shall be increased or decreased by $0.01 for each full $0.10 increase or decrease in the Diesel Index.

e. Review of Invoices. Buyer may upon written notice to Marriott and at times mutually agreed upon by the parties, examine a reasonable sample of Marriott's invoices from the prior twelve (12) months to verify Cost, but not in excess of two (2) times per year. Buyer shall include in such written notice to Marriott the Products and the time period to be reviewed.

5. Rebates and Allowances.

a. Promotional and advertising allowances and discounts and rebates provided by third party suppliers to Marriott which are not reflected on invoices from suppliers but which are attributable to goods Supplied to Buyer by Marriott (except (i) cash discounts, (ii) new warehouse opening allowances, and (iii) allowances or rebates that are only available to a distributor and which are intended to offset damaged product costs and for performing warehousing and distribution or usage reporting functions on behalf of a supplier) shall be paid over to Buyer as soon as practical after the end of each year of the term of this Agreement, to the extent permitted under the terms of Marriott's contract with the supplier. Notwithstanding the foregoing, if Marriott is able to obtain better pricing for Products through membership in a buying co-op than Buyer is able to obtain, and Marriott and Buyer agree on the Cost for such Products, then Marriott will purchase such Products through the buying co-op and Marriott shall be entitled to retain any rebates and allowances, without limitation or restriction, on such purchases made available through the buying co-op. The Units agree to be responsible for any performance requirements associated with any rebates or allowances they receive and to refund any rebates or allowances paid or credited to the Units by Marriott for which the Units do not purchase the requisite Products. Marriott shall have rights of setoff and/or recoupment against any rebates or allowances or any other sums owed to Buyer (or any franchisee, as applicable) by Marriott (or any affiliate), any of Buyer's (or such franchisee's, as applicable) obligations to Marriott (or any affiliate).

b. As referenced in Section 5(a) above, certain suppliers such as Ecolab, Pepsi, and Coca-Cola may provide distributor allowances or rebates which are intended to offset costs of performing warehousing and distribution functions on behalf of the supplier. In the event Buyer has negotiated a delivered price with a supplier and the supplier provides a distributor allowance to Marriott intended as a distribution fee, Marriott may Supply the relevant products of such supplier to the Units at the delivered price agreed upon between Buyer and the supplier and retain the distributor allowance in lieu of the Agreed Markup Per Case provided the distribution allowance is not less than the Agreed Markup Per Case.

6. Volume . The Units shall order from the Distribution Centers substantially all of their requirements for Products during the term of this Agreement, the Delivered Cost of which is estimated to be Seventy Eight Million Seven Hundred Thousand Dollars ($78,700,000.00) per year. In the event that the annualized Delivered Cost of Products Supplied to the Units in the Service Area drops below Sixty Million Dollars ($60,000,000.00) per year and Marriott and Buyer cannot agree on an appropriate adjustment to the Agreed Markup Per Case, Marriott may discontinue Supplying Units in the Service Area upon ninety (90) days' prior written notice to Buyer.

7. Buy-Ins and Proprietary Items.

a. Marriott shall, upon Buyer's written request, make long-range purchases of goods in excess of normal inventories to take advantage of promotional prices or market conditions and in anticipation of promotions planned by the Units (the "Promotional Periods"). Buyer shall provide Marriott with four (4) weeks' advance notice of larger than normal quantities required for promotions planned by the Units and of orders for new items and new Unit openings and closings. Buyer shall be responsible for any increased carrying costs incurred by Marriott prior to, during and after any such Promotional Periods related to the purchase of a Product in quantities which would exceed on average a thirty (30) day supply, including, but not limited to, interest and storage costs. Notwithstanding anything to the contrary in Section 9 herein, Buyer within fifteen (15) days after termination of this Agreement with respect to any Distribution Center, shall purchase from Marriott, pay for, and arrange for removal from the Distribution Center, of all Proprietary Items and of any goods held by the Distribution Center for the Units pursuant to long range purchases requested by the Units. It shall be the responsibility of Buyer to arrange for and contract with sources of supply for all Proprietary Items for the Units. Marriott shall advise Buyer about any Proprietary Items at a Distribution Center for which no Units have placed an order for more than thirty (30) days, and Buyer shall have thirty (30) days thereafter within which to take possession of such Products, sell such Products to a liquidator, or have such Products shipped to the Units. In no event shall Proprietary Items exceed Three Hundred Forty Eight (348) in number for any Distribution Center. Marriott also shall advise Buyer about any Proprietary Items or Promotional Period buy-ins at a Distribution Center for which the Units have placed orders of less than Twenty (20) for Proprietary Items and for Promotional Period buy-ins during a thirty-day period (hereinafter "Slow Moving Items"). If Slow Moving Items exceed Ten (10) in number, within thirty (30) days Buyer agrees to either (i) ask Marriott to discontinue in inventory the excess Slow Moving Items by discontinuing the use of such items or (ii) pay to Marriott an additional One Dollar ($1.00) per case for such Slow Moving Items that are Proprietary Items in excess of the limit and a fair and reasonable fee determined by Marriott for Slow Moving Items that are Promotional Period buy-ins..

b. Prior to Marriott commencing service to the Units, Buyer shall arrange for and Marriott shall purchase and transport to the Distribution Centers reasonable quantities of the saleable inventory of Buyer's proprietary items held by Buyer's current distributor. The price paid by Marriott plus the costs of transporting such inventory to the Distribution Centers and of handling shall be considered Marriott's Cost. Buyer shall pre-approve those items to be purchased by Marriott from Buyer's current distributor and thereafter Buyer shall be responsible for the purchase of such items from Marriott in accordance with the terms applicable to Proprietary Items set forth in Section 7(a). In order that Marriott's Distribution Centers may coordinate their own planned inventory levels of such proprietary items, Buyer shall obtain from its current distributor a schedule of inventory levels of such proprietary items on hand for each of the following number of days prior to the Distribution Centers commencing service to the Units: thirty (30) days, twenty- one (21) days, fourteen (14) days, seven (7) days, and then daily thereafter.

c. As part of the Pricing Period adjustment in Section 4(a), Buyer and Marriott agree to take into account any increase or decrease in costs as a

result of a change in terms such as cash discounts or shipping terms of Buyer's vendor contracts. Buyer agrees to give Marriott reasonable notice of any price changes Buyer anticipates receiving from Buyer's suppliers.

8. Payment.

a. The Units shall pay Marriott the Delivered Cost of all Products Supplied hereunder by check or wire transfer of immediately available funds so that payment for all Products is received by Marriott within twenty one (21) days after the date the Products were delivered by Marriott. The Units will not during any Pricing Period be subject to the per case adjustments referenced below in this paragraph or the late charges set forth in Section 8(b) below, so long as the average balance of outstanding sales payable was twenty one (21) days or less. Prompt payment discount for Units paying by electronic funds transfer within one (1) day after delivery shall be ten cents ($.10) per case.

b. Any payments not made to Marriott when due shall bear interest from the date due to the date of payment at an annual rate of eighteen percent (18%). In the event of the failure to make any payments when due (after the notice and opportunity to cure required in accordance with Section 15(a)), in addition to any other remedies herein provided, Marriott shall have the right to immediately require that all future deliveries be made on a C.O.D. basis only, notwithstanding any credit terms herein provided. Any forbearance by Marriott or failure by Marriott (i) to insist on timely payment or (ii) to exercise any remedies herein provided in the event timely payment is not made, shall not constitute a waiver of the right of Marriott in the future to insist on timely payment in accordance with the terms of this Agreement or to exercise any such remedies herein provided.

c. At any time during the term of this Agreement Marriott may request information or documentation concerning Buyer's or any Franchised Unit's continuing ability to make payments on the balance of outstanding sales payable. This information may include the classification of outstanding debt by Standard and Poor's, Moody's, or such other recognized authority, or may include the status of a bank credit facility, loan commitments, loan maturities, or other sources of operating cash flow. In the event of a material adverse change in the financial condition of Buyer or the owner of particular Franchised Units (which shall be deemed to affect only such Franchised Units), including an event of default, a downgrade, or a refusal to renew a credit facility or any other loan on the part of a lender, notwithstanding any credit terms herein provided Marriott shall have the right immediately, as it pertains to the Buyer or said Franchised Units' owner, to require that all outstanding amounts, not subject to a bonafide written dispute, be paid in full upon demand and require all future deliveries be made on a C.O.D. basis only. In the event that the Buyer or Franchised Units' owner fails to pay all outstanding amounts not subject to a bonafide dispute or pay for a C.O.D. delivery, when delivered, to Marriott's reasonable satisfaction, Marriott may terminate the Agreement as to Buyer or any individual Franchised Units. Notwithstanding the foregoing, Marriott shall not terminate the Buyer or a Franchised Unit which owes Marriott outstanding amounts which are subject to a bonafide written dispute so long as said Unit continues to pay C.O.D. for deliveries when made to Marriott's reasonable satisfaction.

9. Title and Risk of Loss. Title to goods shall pass upon delivery to the Units. Marriott shall bear the risk of loss, damage, or destruction until title passes to the Units.

10. Reports. Marriott agrees to provide usage reports to Buyer upon request. The parties acknowledge that Marriott may provide Buyer with some reports reasonably requested by Buyer that do not necessarily measure performance criteria in accordance with the terms of this Agreement but that may nevertheless be useful as a management tool.

11. Liaison. Marriott and Buyer shall each designate a managerial level person to answer any questions which may arise relating to performance of this Agreement.

12. Service Level. Marriott shall each year during the term of this Agreement maintain a Service Level of Ninety-Eight and One-Half percent (98.5%) on all Products Supplied to the Units, unless due to (i) an act or omission on the part of Buyer or the Units, (ii) the causes set forth in the force majeure provision of this Agreement, or (iii) other causes beyond the reasonable control of Marriott. Recovery shipments made by Marriott the same or next day shall be counted toward satisfaction of the foregoing Service Level requirement. Buyer shall provide Marriott with a list of pre-approved substitutions which may automatically be substituted for items ordered. All other substitutions may only be made upon the approval of Buyer's designated liaison, who shall authorize the substitution or direct that the order be shorted. The Delivered Cost for any

substituted items which are not pre-approved, provided the substitution is not due to an act or omission on the part of Buyer or other causes beyond the reasonable control of Marriott, shall be based upon the lower of (i) the Cost of the substituted item or (ii) the Cost of the original item ordered.

13. Confidentiality. Marriott and Buyer agree that (i) the specific terms of this Agreement, (ii) all information as to source, quantity, and price of goods and services, and (iii) all information regarding either party's products, business, customers, or methods of operation learned during the term of this Agreement or in anticipation of entering into this Agreement shall be maintained in confidence and not be released to any private third party for any reason whatsoever other than pursuant to a validly issued subpoena from a court or governmental authority having jurisdiction over the party or pursuant to a discovery request made under the Federal Rules of Civil or Criminal Procedure or similar state court rules and to which the party is required to respond and except as may be required to implement the terms of this Agreement pertaining to Franchised Units. All confidential and proprietary information which either party has obtained from the other shall be returned upon the expiration or earlier termination of this Agreement. Neither party, without the prior written consent of the other, shall disclose the information contemplated in this Section 13 to any person or entity, except as otherwise required by law or by applicable rules of any national securities exchange. The provisions of this paragraph shall survive the expiration or earlier termination of this Agreement.

14. Warranties. The Products Supplied comprising each shipment or other delivery hereafter made by Marriott to, or in order of, Buyer is hereby guaranteed, as of the date of such shipment or delivery, to be on such date, not adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act, and not an article which may not under the provisions of Section 404 of the Federal Food, Drug and Cosmetic Act, be introduced into interstate commerce. Marriott will assign to Buyer all assignable rights against manufacturers and suppliers of goods Supplied to Buyer by Marriott under warranties and indemnifications Marriott receives from such manufacturers and suppliers. Marriott agrees to cooperate with Buyer, at Buyer's sole cost and expense, in the enforcement of any such warranties or indemnifications against manufacturers or suppliers. Marriott represents that to the best of its knowledge all Products Supplied to the Units by Marriott shall conform to applicable specifications, brands, samples, or other rendered descriptions, and shall be merchantable. It is understood that Marriott is only responsible for such defects which it should have knowledge of, it being understood that Marriott is not the manufacturer of any of the Products. Marriott agrees to indemnify, defend, and hold Buyer, its officers, directors, employees, agents, representatives and affiliates harmless from and against any liability, cost, or expense (including reasonable attorneys' fees) arising out of the negligent act of any negligence on the part of Marriott, its employees, and/or its authorized representatives.

15. Default. If either party materially defaults hereunder, the non-defaulting party may terminate this Agreement with respect to the affected Company Units effective immediately upon written notice to the defaulting party (following the end of any cure period provided for herein). The non-defaulting party shall be entitled to declare all amounts payable hereunder to be due and payable immediately and, subject to Section 28 herein, shall be entitled to all remedies provided by law or equity (including reasonable attorneys' fees and costs of suit incurred whether or not a suit is commenced). The following events shall be deemed to be material defaults hereunder:

a. Failure by Buyer to make any payment required to be made to Marriott hereunder, which failure is not remedied within five (5) days after receipt of written notice thereof from Marriott (provided that if two (2) or more notices of default and opportunities to correct have been given within any twelve (12) month period, no further notice and opportunity to correct need be given); or

b. Failure by either party substantially to perform in accordance with the terms and conditions of this Agreement, which failure is not remedied within sixty (60) days , or in the event the nature of such failure can not be remedied within sixty (60) days the remedy shall be commenced within said sixty (60) days, (unless a different time period is specifically herein provided) after receipt of written notice from the other party specifying the nature of such default; or

c. (i) Filing of a voluntary bankruptcy petition by either party; (ii) filing of an involuntary bankruptcy petition against either party which is not withdrawn or otherwise dismissed within ninety (90) days after filing; (iii) assignment for the benefit of creditors made by either party; or (iv) appointment of a receiver for either party; or

d. Acquisition of the capital stock of Buyer (or any of its affiliates) and such acquiring entity substantially controls the management or equity of Buyer or substantially all of the assets of Buyer (or any of its affiliates) by a competitor of Marriott shall not constitute a default giving rise to monetary damages, but shall entitle Marriott to terminate

this Agreement upon one hundred twenty (120) days prior written notice to
Buyer (and as otherwise provided in Section 18 below).

16. Force Majeure . Marriott and Buyer shall incur no liability (except for payments for Products delivered hereunder) to each other due to a default under the terms and conditions of this Agreement resulting from fire, flood, war, strike, lock-out, work stoppage, slow-down, or other labor disturbances, power failure, major equipment breakdowns, construction delays, accident, riots, acts of God, acts of United States' enemies, laws, orders or at the insistence or result of any governmental authority or any other similar delay beyond each other's reasonable control. In the case of any of the foregoing delays, the parties will be obligated to perform within a reasonable time after the causes interfering with performance have been removed.

17. Relationship of Parties . Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship of buyer and seller.

18. Assignment. Neither Buyer or Marriott may assign its rights and obligations under this Agreement to any third party without the consent of the other party, which consent shall not be unreasonably withheld; except that Marriott may assign its rights and obligations under this Agreement without Buyer's consent to any party controlled by, or under the common control with Marriott, or to any purchaser of all or a substantial part of Marriott's business or assets.

a. A sale of stock or other equity interest of Company Units resulting in a change in control shall be deemed an assignment for purposes of this paragraph. In the event of such an assignment, or the sale of any material segment of the business of any of the Company Units (together or separately, a "Covered Transaction"), Marriott, in its discretion, may require the Buyer to require the purchaser of such business segment to assume the terms of this Agreement applicable to the Company Units included in such segment acquired. Any such purchaser in a Covered Transaction shall provide Marriott with adequate assurances of its ability to perform all of the obligations and terms and conditions of this Agreement applicable to the Units, including the provision of the following to Marriott's satisfaction:

(i) security deposit equivalent to three (3) weeks' of purchases;

(ii) financial statements for the last five (5) years or from the time of formation of the purchasing entity, whichever is less;

(iii) disclosure of the assets of all individuals and business entities having an interest in the purchasing entity; and

(iv) tax returns for the last five (5) years for each of such individuals and business entities.

b. In the case of a sale of the stock of Buyer (or its ultimate parent), the purchasers shall not be required to comply with subsections 18a(i) - 18a(iv) above.

c. If the purchaser in a Covered Transaction does not fulfill the conditions set out in Sections 18a(i) - 18a(iv) above to Marriott's reasonable satisfaction, then Marriott's sole remedy shall be to exercise the rights as provided in Section 15 d above with respect to the Company Units included in the Covered Transaction.

d. Marriott shall have the right to assign this Agreement at any time provided it remains liable under the terms of this Agreement notwithstanding any assignment, and Marriott provides Buyer with written notice of such assignment.

e. In recognition that both Marriott and Buyer are publicly-traded companies, the parties agree that the sale of issuance of stock, other forms of equity, and/or any other transaction involving the other's ownership shall not be subject to the other party's approval (although Section 15 d above shall apply notwithstanding this Section 18 e).

19. Headings . The headings used in this Agreement are inserted only for the purpose of convenience and reference, and in no way define or limit the scope or intent of any provision or part hereof.

20. Severability of Provisions . Neither Marriott nor Buyer intend to violate statutory or common law by executing this Agreement. If any section, sentence, paragraph, clause or combination of provisions in this Agreement is in violation of any law, such sections, sentences, paragraphs, clauses or combinations shall be inoperative and the remainder of this Agreement shall be binding upon the parties.

21. Parties Bound . This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing herein, expressed or implied, shall be construed to give any other person any legal or equitable rights hereunder.

22. Notices . All notices required or permitted to be given hereunder shall be in writing and delivered personally or sent by United States registered or certified mail, postage prepaid, return receipt requested, or by reputable overnight delivery service which provides for return receipts, and shall be addressed to the parties as follows:

If to Marriott, addressed to it in care of:

Marriott Distribution Services, Inc.
Marriott Drive
Washington, D.C. 20058
Attention: Executive Vice President and General Manager

with a required copy to:

Marriott Distribution Services, Inc.
Marriott Drive
Washington, D.C. 20058
Attention: Law Department (MDS)

If to Buyer, addressed to it in care of:

Nathan's Famous, Inc.
1400 Old Country Road, Suite 400
Westbury, NY 11590
Attention: Chief Financial Officer

With a required copy to:

Nathan's Famous, Inc.
6300 N.W. 31st Avenue
Fort Lauderdale, FL 33309
Attention : Senior Director Corporate Food Service

or to such other address as the parties may direct by notice given as hereinabove provided. Notice shall be deemed given when received as evidenced by the return receipt or the date such notice is first refused, if that be the case.

23. Further Action . Marriott and Buyer each shall cooperate in good faith and take such steps and execute such papers as may be reasonably requested by the other party to implement the terms and provisions of this Agreement, including Buyer assisting Marriott in obtaining any indemnification agreements which Marriott may wish to obtain from manufacturers or suppliers of Buyer's Proprietary Items.

24. Waiver . Marriott and Buyer each agree that the waiver of any default under any term or condition of this Agreement shall not constitute any waiver of any subsequent default or nullify the effectiveness of that term or condition.

25. Governing Law . All controversies and disputes arising out of or under this Agreement shall be determined pursuant to the laws of the State of Maryland, United States of America, regardless of the laws that might be applied under applicable principles of conflicts of laws. The parties irrevocably submit to the exclusive jurisdiction of (i) the Courts of the State of Maryland in Montgomery County, and (ii) if federal jurisdiction exists, to the Federal District Court, Maryland District for the purposes of any suit, action, or other proceeding arising out of this Agreement. The parties acknowledge that substantial elements of performance of this Agreement will occur in such jurisdiction. To the extent permitted by law, the parties mutually agree to waive any right either may have to a jury trial in any action, proceeding, or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Agreement.

26. [Intentionally Omitted]

27. Entire Agreement . This Agreement constitutes the entire understanding between the parties hereto, and supersedes all prior written or oral communications, relating to the subject matter hereof. All purchase orders submitted after the effective date hereof shall be subject to the terms of this Agreement, conflicting terms contained in any purchase order to the contrary notwithstanding. No amendment, modification, extension or failure to enforce any condition of this Agreement by either party shall be deemed a waiver of any of its rights herein. This Agreement shall not be amended except by a writing executed by both of the parties hereto.

28. Limitation on Damages. NOTWITHSTANDING ANY OTHER PROVISION HEREIN, NEITHER PARTY SHALL HAVE LIABILITY TO THE OTHER UNDER ANY CIRCUMSTANCES FOR SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION FOR LOSS OF PROFITS OR DAMAGE TO REPUTATION) RESULTING FROM ITS FAILURE TO COMPLY WITH THIS AGREEMENT OR RESULTING FROM ANY CESSATION OR INTERRUPTION OF THIS AGREEMENT, OR THE SERVICES PROVIDED BY MARRIOTT HEREIN.

29. No Interference with Contract. Buyer acknowledges and agrees that it approached Marriott and initiated the discussions which are the subject matter of this Agreement. Marriott would not engage in such discussions nor execute this Agreement except in reliance on the factual representations and covenants set forth in this Section 29. Buyer represents and warrants that neither it nor the Units are bound by any distribution agreement of any kind or nature relating to the Products or any food, beverage or related supplies other than one or more distribution agreements which, by their terms, may be terminated by Buyer prior to the commencement of the term of this Agreement, without any liability to Buyer (other than payment by Buyer of the termination fees, if any, stipulated in such distribution agreement(s)). Buyer has determined based upon its own business judgment and independently of the subject matter of this Agreement to terminate these distribution agreement(s). Buyer shall be solely responsible for payment of any termination fees and any costs, expenses, claims and damages of any kind resulting from, relating to or arising in connection with such termination. Buyer shall indemnify, defend and hold harmless Marriott, its directors, officers, employees, representatives, agents and affiliates from any and all claims, actions, demands, and damages (including reasonable attorney's fees and expenses) of any nature resulting from, relating to or arising in connection with any distribution agreement(s) or the termination or attempted termination thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:	MARRIOTT DISTRIBUTION SERVICES, INC.
By: /s/ William J. Sardella	By:/s/Victor L. Crawford
Printed Name: William J. Sardella	Printed Name: Victor L. Crawford
Title: Corporate Counsel	Title: Executive Vive President
ATTEST:	NATHAN'S FAMOUS, INC.
By: /s/Ronald DeVos	By: /s/Wayne Norbitz, Pres

Printed Name: Ronald DeVos	Printed Name: Wayne Norbitz
Title: Vice President - Finance	Title:President

EXHIBIT A

COMPANY UNITS

EXHIBIT A-1

FRANCHISED UNITS

EXHIBIT B

*PRODUCTS

Frozen Foods
Refrigerated Foods
Dry Storage Foods and Beverages
Related Supplies (e.g., paper products and cleaning supplies)

*Except all goods customarily distributed "store door delivery" by third parties selected by Buyer.

EXHIBIT C

BUSINESS DATA AND
SERVICE CHARACTERISTICS

Annual Number of Cases for all Units:	2,882,452
Number of Units:	315
Average Number of deliveries per Unit per week:	2
Average Number of cases per delivery:	88
Average Cost per case:	$25.28
Average case cube:	1.0

DISTRIBUTION AGREEMENT

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