

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 30, 1997

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-3189

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

Delaware 11-3166443
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

1400 Old Country Road, Westbury, New York 11590
(Address of Principal Executive Offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock - par value \$.01
(Title of Class)

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 Exchange 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K .

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 4, 1997 was approximately \$15,789,910.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of June 4, 1997, there were 4,722,216 shares of Common Stock, par value \$.01 per share outstanding.

Documents incorporated by reference: Part III - Registrant's definitive proxy statement to be filed pursuant to Regulation 14-A of the Securities Exchange Act of 1934.

ITEM 1. BUSINESS

The Company operates and franchises or licenses fast food units featuring its famous all beef frankfurters, fresh crinkle-cut french fried potatoes, and a variety of other menu offerings. Company-owned and franchised units operate under the name "Nathan's Famous," the name first used at the Company's original Coney Island restaurant opened in 1916. During fiscal 1997, the Company has launched its Branded Product Program which enables approved retailers to sell certain Nathan's products outside of the realm of a traditional franchise relationship.

Franchise and license operations have expanded since March 25, 1990, increasing from 35 to 147 units at March 30, 1997, including 27 carts, kiosks, and counter units operating in 19 states, and the District of Columbia. Since establishing the Branded Product Program in 1996, the Company has opened 57 branded outlets. At March 30, 1997, the Company operated 26 Company-owned units, including one cart, concentrated in the New York metropolitan area.

The Company plans to concentrate opening new Company-owned and franchised or licensed outlets in non-traditional captive markets utilizing its smaller restaurant prototypes, carts, kiosks and modular merchandising units. The Company also plans to expand its newly created Branded Product Program.

RESTAURANT OPERATIONS

CONCEPT AND MENUS. The Nathan's concept offers a wide range of facility designs and sizes, suitable to a vast variety of locations and features a core menu, consisting of the "Nathan's Famous" all-beef frankfurters, fresh crinkle-cut french fries and beverages. Nathan's menu is designed to be tailored to take advantage of site-specific market opportunities by adding complementary food items to the core menu. The Nathan's concept is suitable to stand alone or be bundled with other nationally recognized brands.

Nathan's hot dogs are 100% all-beef and are free from all fillers and starches. Hot dogs are flavored with the original secret blend of spices, created by Ida Handwerker in 1916, which historically have distinguished Nathan's hot dogs. Hot dogs are prepared and served in accordance with procedures which have not varied in more than 80 years. Fresh crinkle-cut french fried potatoes are prepared daily at each Nathan's restaurant. Nathan's french fried potatoes are never frozen, and are cooked to order in 100% cholesterol-free corn oil. The Company estimates that approximately 65% to 70% of sales in its Company-owned units consist of its famous hot dogs, fresh crinkle-cut french fried potatoes and beverages.

Individual Nathan's restaurants supplement their core menu of hot dogs, french fries and beverages with a variety of other quality menu choices: a chargrilled hamburger menu, a chargrilled chicken sandwich menu, a seafood menu, a fried chicken menu, a specialty sandwich menu, a breakfast menu and dessert, salad and snack menus. While the number of supplemental menus carried varies with the size of the unit, the specific supplemental menus chosen are tailored to local food preferences and market conditions. Foods such as a chargrilled chicken breast, fresh-squeezed lemonade and an assortment of salads, fresh fruits and yogurt have been added to appeal to customers interested in lighter cuisine. Each of these supplemental menus consist of a number of individual items; for example, the hamburger menu may include chargrilled hamburgers, cheeseburgers, chiliburgers, superburgers, "BLT" burgers and southwestern burgers. The Company maintains the same quality standard with each supplemental menu as it does with its core hot dog and french fried potato menus. Thus, for example, hamburgers and sandwiches are prepared to order and not pre-wrapped or kept warm under lights. The Company also has a "Kids Meal" program in which various menu alternatives are combined with "frankster" toys to appeal to the children's market.

The Company's prototype restaurant units are available in a range of sizes as follows: Type A--300 to 1,200 sq. ft., Type B--approximately 2,200 sq. ft. and Type C--approximately 4,000 sq. ft. The Company has also developed prototype carts, kiosks, and modular merchandising units, all designated as Type D. Type A units may not have customer seating areas, although they may often share seating areas with other fast food outlets in food court settings. Type B and Type C units generally provide seating for 45 to 50 and 75 to 125 customers, respectively. Type A and D units generally carry only the core menu. This menu is supplemented by a number of other menu selections in Type B units and even greater menu selection in Type C units. The standardization of the Company's prototype unit designs and menus has enabled the Company to minimize the cost of constructing conforming restaurant units and the operating costs of these units.

The Company believes its carts, kiosks and modular units are particularly well-suited for placement in non-traditional sites, such as airports, travel plazas, stadiums, schools, convenience stores, entertainment facilities, military facilities, business and industry food service, within larger retail operations and other captive markets. All prototypes utilize a uniform, contemporary design.

FRANCHISE PROGRAM. The Company franchise operations have expanded since March 25, 1990, increasing from 35 to 147 units at March 30, 1997, operating in 19 states, and the District of Columbia. Such growth has been achieved through the development and redefinition of its marketing and sales concepts. The Company has developed restaurant designs, equipment configurations and specifications for its Type A, B, C and D prototype units.

The Company continues to focus its marketing efforts on larger, experienced and successful operators with the financial and business capability to develop multiple franchise units.

The Company counts among its 60 franchisees such well known companies as Host Marriott Corporation ("Marriott"), ARAMARK, Service America, Ogden Foods, Sodexo and Kentucky Fried Chicken Corp.

As of June 1997, franchised outlets include 16 units at airports and 16 within highway travel plazas operated by Marriott.

Franchisees who desire to open multiple units in a specific territory generally enter into a standard area development agreement pursuant to which the Company receives an advance fee based upon the number of proposed units which the franchisee is authorized to open. This advance is credited against the franchise fee payable to the Company as provided in its standard franchise agreement. In certain circumstances, the Company may grant exclusive territorial rights, including foreign countries, for the development of Nathan's units based upon compliance to a predetermined development schedule. The Company may require that an exclusivity fee be conveyed for these rights.

Franchisees are required to execute a standard franchise agreement or license agreement prior to opening each "Nathan's Famous" unit. The Company's current standard franchise agreement provides for, among other things, a one-time \$30,000 franchise fee payable upon execution of the agreement, a monthly royalty payment based on 4.5% of restaurant sales and the expenditure of 2.5% of sales on advertising. In certain specific situations, the Company may offer alternatives to the standard one-time fee. Marriott and National Restaurant Management, Inc., are among those who are not subject to the requirement to spend a percentage of sales on advertising. The initial term of the typical franchise agreement is 20 years, with a 15-year renewal option by the franchisee, subject to certain conditions.

The standard license agreement provides for, among other things, a monthly royalty payment based on 10% of restaurant sales up to \$250,000, 8% of restaurant sales between \$250,000 and \$500,000 and 6% of restaurant sales in excess of \$500,000 per annum. There is no one-time license fee upon execution of the agreement or requirement to spend a percentage of restaurant sales on advertising.

Franchisees are approved on the basis of their business background, net worth, capital available for investment in relation to the proposed scope of the development agreement and evidence of restaurant management experience. The Company does not offer any financing arrangements to its franchisees.

The Company provides numerous support services to its franchisees. The Company assists in and approves all site selections. Thereafter, the Company provides architectural prototype plans suitable for restaurants of varying sizes and configurations, for use in food-court, in-line and free-standing locations. The Company also assists in establishing building design specifications, reviewing construction compliance, equipping the restaurant and providing appropriate menus to coordinate with the prototype restaurant design and location selected by the franchisee. The Company typically does not sell food, equipment or supplies to its franchisees.

The Company offers various management training courses for management personnel of Company-owned and franchised restaurants. At least one restaurant manager from each restaurant must successfully complete the Company's mandated management training program. The Company also offers additional operations and general management training courses for all restaurant managers and other managers with supervisory responsibilities. The Company provides standard manuals to each franchisee regarding training and operations, products and equipment and local marketing programs. The Company provides ongoing advice and assistance to franchisees.

Franchised restaurants are required to be operated in accordance with uniform operating standards and specifications relating to the selection, quality and preparation of menu items, signage, decor, equipment, uniforms, suppliers, maintenance and cleanliness of premises and customer service. All standards and specifications are developed by the Company and applied on a system-wide basis. The Company continuously monitors franchisee operations and inspects restaurants. Franchisees are required to furnish the Company with detailed monthly sales or operating reports which assist the Company in monitoring the franchisee's compliance with its franchise or license agreement. The Company makes both announced and unannounced inspections of restaurants to ensure that Company practices and procedures are being followed. The Company has the right to terminate a franchise if a franchisee does not operate and maintain a restaurant in accordance with the requirements of its franchise or license agreement. The Company also has the right to terminate a franchise for non-compliance with certain other terms and conditions of the franchise or license agreement. During Fiscal 1997, the Company terminated 4 franchise agreements.

COMPANY-OWNED OPERATIONS. The Company currently operates 26 Company-owned units, after closing it's Albany, NY location on April 2, 1997, including: 25 restaurants in New York, New Jersey, Connecticut and Pennsylvania and one cart. Certain of the Company's restaurants are older and significantly larger units which do not conform to current prototype designs. These units carry a broader selection of menu items than current franchise prototype units. The items offered at Company-owned restaurants, other than the core menu, tend to have lower margins than the core menu. The older units required significantly higher levels of initial investment than current franchise prototypes and tend to operate at a lower sales/investment ratio. For this reason, the Company does not intend to replicate these units in its planned expansion of Company-owned units.

The Company has entered into a food service lease agreement with Home Depot U.S.A., Inc. pursuant to which the Company leases space within certain Home Depot Improvement Centers to operate its restaurants. During fiscal 1997, the Company opened one restaurant and one cart in Home Depot locations, increasing the total number of units operating within Home Depots to eight. The Company anticipates opening a new unit in August 1997 and has additional units presently under various stages of consideration.

Since the Company's Initial Public Offering in February 1993, the Company has acquired seven Company-owned restaurants from franchisees, opened fourteen new Company-owned units, commenced operating two carts, and has closed five units. The Company may close other units in the future.

Company-owned units currently range in size from approximately 200 square feet to 10,000 square feet and are located principally in retail shopping environments or are free-standing buildings. Certain restaurant designs do not include seating and others include seating for 100 to 300 customers. The restaurants are designed to appeal to all ages and generally are open seven days a week. The Company has established high standards with respect to food quality, cleanliness and service at its restaurants and regularly monitors the operations of its restaurants to ensure adherence to these standards. Restaurant service areas, seating, signage and general decor are contemporary. The average check at the comparable Company-owned restaurants was approximately \$5.34 for fiscal 1997.

BRANDED PRODUCT PROGRAM. During fiscal 1997, the Company launched its new Branded Product Program in which approved foodservice operators may offer Nathan's 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 Nathan's trademark with respect to the sale of hot dogs and certain other items. The Company sells the products directly to various distributors who are permitted to sell these proprietary products to retailers only upon approval from the Company. Since the inception of the program, 57 branded outlets have been opened.

The following table shows the number of outlets in operation at March 30, 1997 and their geographical distribution:

Location -----	Company -----	Franchise -----	Branded Outlets -----	Total -----
Alabama	-	-	2	2
Arizona	-	2	1	3
California	-	2	1	3
Connecticut	1	4	-	5
District of Columbia	-	1	-	1
Florida	-	13	3	16

Georgia	-	-	2	2
Indiana	-	1	-	1
Maryland	-	1	-	1
Massachusetts	-	3	1	4
Minnesota	-	2	-	2
Nevada	-	5	-	5
New Hampshire	-	1	-	1
New Jersey	4	46	9	59
New York	19	57	34	110
North Carolina	-	2	2	4
Ohio	-	1	-	1
Pennsylvania	2	5	-	7
Rhode Island	-	1	-	1
Virginia	-	-	2	2
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Total	26	147	57	230
	===	===	===	===

EXPANSION PROGRAM. The Company's expansion plans focus on opening Company-owned and franchised units in non-traditional captive markets primarily utilizing smaller facility types with limited menus. The Company has recently executed co-branding agreements with TCBY, Pizza Hut, KFC Corporation and Blimpies whereby Nathan's menu items will be sold together with their menu offerings. New Company-owned units are expected to be opened primarily in the Northeastern United States concentrated within the New York metropolitan area. The Company-owned units are principally located in the New York metropolitan area and the Company has extensive experience in operating restaurants in this market. The Company intends to continue to focus on opportunities for locating units in non-traditional or other special captive market settings. The Company believes that a significant opportunity exists to convert existing sales of nonbranded hot dogs into "Nathan's" hot dogs throughout the foodservice industry, by franchisees, licensees or perhaps with branded retailers by utilizing modular merchandising units, carts or kiosks in addition to restaurants.

During fiscal 1997, new unit openings consisted of 2 Company-owned units, 38 franchised units and 57 branded outlets.

The Company expects that its franchisees and licensees will open approximately 30-40 new units and continued growth of new branded outlets in fiscal 1998. The Company plans to continue opening Company-owned units within Home Depot Improvement Centers.

The Company believes that opportunities may exist for franchising "Nathan's Famous" restaurants in various foreign countries. To that end, the Company has registered certain of its service marks and trademarks in more than 20 foreign jurisdictions. In fiscal 1996, the Company executed a letter of intent to enter into a Master License Agreement, contingent upon the ability of the counterpart to secure financing, for the exclusive development of Nathan's in Russia.

LICENSING PROGRAM. The Company licenses SMG, Inc. ("SMG"), to produce packaged hot dogs and other meat products according to Nathan's proprietary recipes and spice formulations, and to use "Nathan's Famous" and related trademarks to sell these products on an exclusive basis in the United States to supermarkets, groceries and other outlets, thereby providing foods for off-premises consumption. The SMG agreement expires in 2014 and provides for royalties of approximately 3% to 5% of sales. The percentage varies based on sales volume, with escalating minimum royalties. Earned royalties of \$1,096,000 in fiscal 1997 exceeded the contractual minimum established under the agreement. The Company believes that the overall exposure of the brand and opportunity for consumers to enjoy the "Nathan's Famous" hot dog in their homes helps promote "Nathan's Famous" restaurant patronage. Hot dog sales are concentrated in the New York metropolitan area, New England, Florida and California. Royalties from SMG provided substantially all of the Company's retail license revenues. SMG has continued to expand the products sold under the Nathan's trademark. In addition to the basic hot dog products, SMG began selling certain Nathan's Deli products and frozen Nathan's hamburgers in selected supermarkets two years ago. SMG has also added four new meats to their product line and expanded the hot dog line to now include foot long hot dogs and a new "jumbo" package containing 4 1/2 pounds of hot dogs.

The Company has also entered into licensing agreements with Gold Pure Food Product's Co, Inc. and United Pickle Packers, Inc. licensing the "Nathan's Famous" name for the manufacture and sale of various condiments including Mustard, Salsa, Sauerkraut

and Pickles. These products have just begun to be distributed on a limited basis. Fees and royalties earned during fiscal 1997 have not been significant.

PROVISIONS AND SUPPLIES. The Company's proprietary hot dogs are produced by SMG and one other supplier in accordance with the Company's recipes, quality standards and proprietary spice formulations. John Morrell & Company, the Company's licensee prior to SMG, has retained the right to produce the Company's proprietary spice formulations. All other Company provisions are purchased and obtained from multiple sources to prevent disruption in supply and to obtain competitive prices. The Company negotiates directly with its suppliers for all primary food ingredients and beverage products sold at its restaurants to ensure adequate supply and to obtain competitive prices. Franchised operators are free to obtain frankfurters and other proprietary products from any approved supplier and can obtain non-proprietary products from any source whose products meet the Company's specifications.

MARKETING, PROMOTION AND ADVERTISING. The Company maintains advertising funds ("Funds") for local, regional and national advertising pursuant to the Nathan's Famous Systems, Inc. Franchise Agreement. Franchisees are generally required to spend or contribute to the Funds up to 2.5% of restaurant sales for advertising and promotion. Marriott and National Restaurant Management, Inc. are among the current franchisees who are not subject to this requirement. If a cooperative advertising program exists in the franchised area, the applicable percentage can be contributed to that program. Where no cooperative advertising program is available, up to 1% of the franchisees' advertising budget must be contributed to the Funds for national marketing support. The balance must be expended on programs approved by the Company as to form, content and method of dissemination. During Fiscal 1997, the Company spent approximately 2.6% of its own restaurant sales for marketing activities.

During fiscal 1997, the Company's primary marketing emphasis was concentrated on local store marketing campaigns featuring a value oriented strategy coupled with promotional "Limited Time Offers." The Company anticipates that near term marketing efforts will continue to emphasize local store marketing activities. As the concentration of "Nathan's Famous" restaurants in particular geographic areas increases, the Company believes the opportunity for effective regional media advertising may exist.

In addition, SMG promotes and advertises the "Nathan's Famous" packaged retail brand, particularly in the New York metropolitan area, California, the greater Boston area and Florida. SMG has advised the Company that it may introduce and advertise packaged hot dogs in additional areas as the concentration of Company-owned and franchised restaurants increase therein. The Company believes that the advertising by SMG increases brand recognition and thereby indirectly benefits Company-owned and franchised restaurants in the areas in which SMG conducts its campaigns. The Company also participates with SMG in certain joint promotional activities.

GOVERNMENT REGULATION. The Company is subject to Federal Trade Commission ("FTC") regulation and several state laws which regulate the offer and sale of franchises. The Company is also subject to a number of state laws which regulate substantive aspects of the franchisor-franchisee relationship.

The FTC's "Trade Regulation Rule Concerning Disclosure Requirements and Prohibitions concerning Franchising and Business Opportunity Ventures" (commonly referred to as the "FTC Rule") requires the Company to provide disclosure of specified information to prospective franchisees. Fifteen states, including New York, also require similar disclosure. While the FTC Rule does not require registration or filing of the disclosure document, fourteen states require franchisors to register the disclosure document (or obtain exemptions from that requirement) before offering or selling a franchise. The laws of seventeen other states require some form of registration under "business opportunity" laws, which sometimes apply to franchisors such as the Company.

Laws which regulate one or another aspect of the franchisor-franchisee relationship presently exist in twenty-one states and the District of Columbia. Such laws regulate the franchise relationship by, for example, requiring the franchisor to deal with its franchisees in good faith, prohibiting interference with the right of free association among franchisees, limiting the imposition of standards of performance on a franchisee, and regulating discrimination among franchisees in charges, royalties or fees. These laws have not precluded the Company from seeking franchisees in any given area. Although such laws may also restrict a franchisor in the termination of a franchise agreement by, for example, requiring "good cause" to exist as a basis for the termination, advance notice to the franchisee of the termination, an opportunity to cure a default and repurchase of inventory or other compensation, these provisions have not had a significant effect on the Company's operations.

The Company is not aware of any pending franchise legislation which in its view is likely to significantly affect the operations of the Company. The Company believes that its operations comply substantially with the FTC Rule and state franchise laws.

Each Company-owned and franchised restaurant is subject to regulation by federal agencies and to licensing and regulation by state and local health, sanitation, safety, fire and other departments. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new restaurant.

The Company is subject to federal and state environmental regulations, which have not had a material effect on the Company's operations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations.

Each of the companies which manufactures, supplies or sells the Company's products is subject to regulation by federal agencies and to licensing and regulation by state and local health, sanitation, safety and other departments. Difficulties or failures by such companies in obtaining the required licenses or approvals could adversely affect the revenues of the Company which are generated from such companies.

The Company believes that it operates in substantial compliance with applicable laws and regulations governing its operations.

EMPLOYEES. The Company regularly employed an average of 608 persons during fiscal 1997, of whom 30 were corporate management and administrative employees, 92 were restaurant managers or assistant managers and 486 were hourly food-service employees (both full time and part time). The number of hourly food-service employees ranged from a low of 467 to a high of 629. Food-service employees at 6 locations are represented by 1115 Culinary Employees Union, a division of 1115 Joint Board, under various agreements expiring between September 1997 and March 1999. The Company considers its employee relations to be good and has not suffered any strike or work stoppage for more than 22 years.

The Company provides a training program for managers and assistant managers of its new Company-owned and franchised restaurants. Hourly food workers are trained, on site, by managers and assistant managers following Company practices and procedures outlined in its operating manuals.

TRADEMARKS. The Company holds trademark and service mark registrations for NATHAN'S FAMOUS, NATHAN'S and Design, NATHAN'S FAMOUS SINCE 1916, SINCE 1916 NATHAN'S FAMOUS within the United States with some of these marks holding corresponding foreign trademark and service mark registrations in more than 20 jurisdictions. The Company also holds various related marks for restaurant services and certain food items. The Company believes that its trademarks and service marks provide significant value to the Company and are an important factor in the marketing of its products and services. The Company believes that it does not infringe on the trademarks or other intellectual property rights of any third parties.

COMPETITION. The restaurant business is highly competitive and "Nathan's Famous" restaurants compete with numerous restaurants and drive-in units operating on both a national and local basis, including major national chains with greater financial and other resources than the Company. The Company also competes with local restaurants and diners on the basis of food quality, price, size, site location and name recognition. There is also active competition for management personnel as well as suitable commercial sites for restaurants.

The Company believes that its emphasis on its proprietary 100% all beef frankfurters and fresh crinkle-cut french fried potatoes and the reputation of these products for taste and quality set it apart from its major competitors. Additionally, the Company believes that it and its franchisees compete effectively with other restaurants for patronage on the basis of the reputation achieved by "Nathan's Famous" restaurants. As fast food companies have experienced flattening growth rates and declining average sales per restaurant, certain of such companies have adopted "value pricing" and or deep discount strategies. Such strategies could have the effect of drawing customers away from companies which do not engage in discount pricing and could also negatively impact the operating margins of competitors which attempt to match their competitors' price reductions. The Company has introduced its own form of "value pricing," selling combinations of different menu items for a total price lower than the usual sale price of the individual items and other forms of price sensitive promotions. Continued price discounting in the fast food industry could have an adverse effect on the Company.

The Company also competes with numerous companies in the sale and distribution of its licensed hot dogs and other packaged foods, primarily on the basis of reputation, flavor, quality and price.

EXECUTIVE OFFICERS OF THE COMPANY The executive officers of the Company are as follows:

NAME - - - -	AGE - - -	POSITION WITH THE COMPANY -----
Howard M. Lorber.....	48	Chairman and Chief Executive Officer
Wayne Norbitz.....	49	President and Chief Operating Officer
Richard E. Boudreaux.....	44	Executive Vice President
Carl Paley.....	60	Senior Vice President - Franchise and Real Estate Development
Ronald G. DeVos.....	42	Vice President - Finance, Chief Financial Officer and Secretary
Donald P. Schedler.....	44	Vice President - Architecture and Construction

Officers are elected to serve, subject to the discretion of the Board of Directors, until their successors are appointed.

HOWARD M. LORBER has been Chairman of the Company since 1990, Chief Executive Officer since 1993 and a Director since 1987. He is also the Chairman and Chief Executive Officer of Hallman & Lorber Associates, Inc., an employee benefit and pension consulting firm. Mr Lorber has served as President and Chief Operating Officer of New Valley Corp. (formerly Western Union Corp.) since November 1994 and has served as a director since 1991. He also serves as a Director of United Capital Corp., a manufacturer of antennas and a real estate owner, Alpine Lace Brands, Inc., a manufacturer and distributor of cheese products and Prime Hospitality Corporation, an owner and operator of hotel properties. He is also a trustee of Long Island University.

WAYNE NORBITZ has been employed by the Company since 1975, he was elected President of the Company and Director in October 1989. He previously held the positions of Director of Operations, Vice President of Operations, Senior Vice President of Operations and Executive Vice President. Prior to joining Nathan's, Mr. Norbitz held the position of Director of Operations of Wetson's Corporation. Mr. Norbitz also serves as a member of the Advisory Board of the Penton Foodservice Branding Institute and is a member of the Board of Directors of the Long Island Philharmonic Orchestra.

RICHARD E. BOUDREAUX joined the Company as Executive Vice President in December 1995. Prior thereto he was an executive at PepsiCo, Inc. where he served as Vice President of Operations for Pizza Hut International Inc., from November 1992 to November 1995, and Vice President of PFS Corporation, the purchasing and logistics division of PepsiCo, Inc., from August 1988 to November 1992. Prior to his positions at PepsiCo, Inc., Mr. Boudreaux worked in the chemical industry in various domestic and international positions in Operations, Marketing and Strategic Planning. Mr. Boudreaux holds an M.B.A. degree from Harvard and a B.S. from Texas A&M University.

CARL PALEY joined the Company as Director of Franchise Development in May 1989 and was promoted to Vice President Franchise Development in September 1989 and Senior Vice President in April 1993. From November 1985 to May 1989 he provided consulting services to franchise companies through Carl Paley Enterprises. Mr. Paley served as Vice President of Franchising of The Haagen-Dazs Shoppe Co., Inc. from June 1978 to November 1985. Prior thereto, Mr. Paley was a Vice President of Carvel Corporation and was responsible for marketing, public relations, advertising, promotions and training.

RONALD G. DEVOS joined the Company as Vice President - Finance and Chief Financial Officer in January 1995 and became Secretary in April 1995. Prior thereto, he was Controller of a large Wendy's franchisee, from June 1993 to December 1994. Mr. DeVos was Vice President - Controller of Paragon Steakhouse Restaurants, Inc., a wholly owned subsidiary of Kyotaru Company Ltd., from May 1989 to October 1992, and Controller of Paragon Restaurant Group, Inc. and its predecessors, from October 1984 to May 1989. Mr. DeVos holds an M.B.A. from St. John's University and a B.A. from Queens College.

DONALD P. SCHEDLER joined Nathan's in March 1989 as Director of Architecture and Construction and was made Vice President - Architecture and Construction in February 1991. Prior thereto he was a Director of Construction for The Riese Organization, restaurateurs, from January 1988 to February 1989 and an Associate and Project Architect with Frank Guillot Architects, Ltd. from June 1985 to January 1988. Mr. Schedler is a registered architect in the states of Vermont and New York, and holds a B.A. degree in economics from Susquehanna University and a M.A. degree in architecture from Syracuse University.

ITEM 2. PROPERTIES

The Company's principal executive offices consist of approximately 10,000 sq. ft. of leased space in a modern, high-rise office building in Westbury, New York. One Company-owned, 2,650 sq. ft. restaurant, at 86th Street in Brooklyn, New York, is located on a 25,000 sq. ft. lot owned by the Company. Other Company-owned restaurants currently operating are located in leased space with terms expiring as shown in the following table:

LOCATION -----	LEASE EXPIRATION DATE -----	APPROXIMATE SQUARE FOOTAGE -----	
Coney Island	Brooklyn, NY	December 2008	10,000
Coney Island Boardwalk	Brooklyn, NY	October 2006	440
Kings Plaza Shopping Center	Brooklyn, NY	January 1998	5,500
Broadway Mall	Hicksville, NY	Month to Month	6,500
Long Beach Road	Oceanside, NY	May 2001	7,300
Central Park Avenue	Yonkers, NY	April 2000	10,000
Livingston Mall	Livingston, NJ	December 2000	2,650
Paramus Park Shopping Center	Paramus, NJ	August 1997	1,300
Jericho Turnpike	Commack, NY	March 2003	3,200
Hempstead Turnpike	Levittown, NY	September 2004	4,100
Connecticut Post Mall	Milford, CT	March 2002	1,000
Broadhollow Road	Farmingdale, NY	April 2003	2,200
Woodbridge Center	Woodbridge, NJ	May 2000	3,000
Galleria Mall	White Plains, NY	March 1999	1,000
Forest Avenue	Staten Island, NY	April 2013	3,000
Fifth Avenue	New York, NY	January 2009	4,000
Jericho Home Depot	Jericho, NY	September 2004	1,500
S. Plainfield Home Depot	S. Plainfield, NJ	October 2004	1,500
Copaigue Home Depot	Copaigue, NY	April 2005	1,200
Flushing Home Depot	Flushing, NY	June 2005	1,500
Larchmont	Larchmont, NY	Month to Month	5,400
Elmont Home Depot	Elmont, NY	October 2005	1,500
Philadelphia Home Depot	Philadelphia, PA	November 2005	1,530
Upper Darby Home Depot	Upper Darby PA	July 2006	1,560
Valley Stream Home Depot	Valley Stream NY	February 2007	200

The Company's leases typically provide for a base rental plus real estate taxes, insurance and other expenses and, in some cases, provide for an additional percentage rent based on the restaurants revenues. Aggregate rental expense under the Company's current leases amounted to \$2,371,000 in fiscal 1997.

The Company is currently developing one Company-owned restaurant within The Home Depot Improvement Center in Staten Island, New York. The restaurant will be approximately 1500 square feet and it is expected that the lease thereon will have terms of ten years commencing with the restaurant opening.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in ordinary and routine litigation. The Company is also involved in the following litigation.

On April 7, 1995, an action entitled Erwin Protter, et al. v. Nathan's Famous Systems, Inc., et al. was instituted in the United States District Court for the Eastern Division of New York against a wholly owned subsidiary of the Company and several of the Company's current or former executive officers. The complaint relating to this action alleges that this subsidiary and such persons made misstatements in connection with the acquisition by the plaintiffs of three (3) franchised restaurants. This complaint seeks approximately \$13,000,000 in damages, plus punitive and treble damages, to the extent appropriate. On October 21, 1995, the original complaint was dismissed as inadequately pleaded and the plaintiffs were granted leave to file an amended complaint. Plaintiffs did so, and defendants again moved to dismiss it on several grounds. On May 10, 1996, the Court granted the motion to dismiss, finding that plaintiff had failed to plead violations of the RICO statute, which was the predicate for federal court jurisdiction. The Court accordingly dismissed the complaint in its entirety, refusing to assume jurisdiction over the remaining state court claims. On May 31, 1996, plaintiffs commenced an action in the Supreme Court of the State of New York, Nassau County, alleging violations of the common law and state franchise laws. The Company's motion to dismiss the complaint was granted with regard to the common law fraud cause of action but denied as to the cause of action for violation of the state franchise law. The Company has filed an answer asserting counterclaims against the plaintiffs for unpaid advertising costs and franchise fees and otherwise has filed a notice of appeal from so much of the order which denied its motion to dismiss the cause of action for violation of the State Franchise Law.

On February 28, 1995, an action entitled Textron Financial Corporation v. 1045 Rush Street Associates, Stephen Anfang, and Nathan's Famous, Inc. was instituted in the Circuit Court of Cook County, Illinois County Department, Chancery Division. The complaint alleges that the Company conspired to perpetrate a fraud upon the plaintiff and alleges that the Company breached its lease with 1045 Rush Street Associates and the estoppel agreement delivered to the plaintiff in connection therewith by subleasing these premises and thereafter assigning the lease with respect thereto to a third party franchisee, and further by failing to pay rent under this lease on and after July 1990. This complaint seeks damages in the amount of at least \$1,500,000. The Company has filed its answer to this complaint denying the material allegations of the complaint and asserting several affirmative defenses to liability including, but not limited to, the absence initially or subsequent failure of consideration for the estoppel agreement, equitable estoppel, release, failure to mitigate and other equitable and legal defenses. The Company intends to defend this action vigorously.

The Company has been named as one of several "generator defendants" in an action brought by CSX Transportation, Inc. ("CSX") and Staten Island - Arlington, Inc. ("Arlington") in the Supreme Court of the State of New York, County of New York. According to the complaint, CSX, through its wholly owned subsidiary, Arlington, owned certain property in Staten Island (the "Arlington Yard") which, according to the complaint, during the period May 15, 1988 through September 14, 1988 was the site of illegal solid waste dumping activity allegedly orchestrated by certain defendants convicted of such activity in United States v. Paccione, et al. (the "Paccione Defendants"). Pursuant to an Order on Consent into which CSX alleges it entered with the NYS Dept. of Environmental Conservation ("DEC"), CSX undertook to remediate the site and to reimburse the DEC for amounts expended in connection with a preliminary investigation of the site. CSX is now suing several "transporter defendants" (ie., those who allegedly had wastes generated by them transported to Arlington Yard), for damages and injunctive relief based upon various theories of law, including private and public nuisance, restitution, equitable indemnity and trespass. The Company has filed an answer in which it denied any involvement with the site and perforce, any liability to the plaintiffs under the Common law theories advanced, asserted affirmatively several legal and equitable defenses to liability in these circumstances, and alternatively, interposed cross claims for contribution against other defendants.

In or about December, 1996, Nathan's Famous Systems, Inc. ("Systems") instituted an action in the Supreme Court of New York, Nassau County, against Phylli Foods, Inc. ("Foods") a franchisee, and Calvin Danzig as a guarantor of Foods' payment and performance obligations, to recover royalty fees and advertising contributions due to Systems in the aggregate amount of \$35,567.20 under a Franchise Agreement between Systems and Foods dated June 1, 1994. In their answer, the defendants essentially denied the material allegations of the complaint and interposed counterclaims against Systems in which they alleged essentially that Systems fraudulently induced the defendants to purchase the franchise from Systems or did so by means of negligent misrepresentations. Defendants also alleged that reason of Systems' allegedly fraudulent and deceitful conduct, Systems violated the General Business Law of New York. As a consequence of the foregoing, the defendants are seeking damages in excess of five million dollars, as well as statutory relief under the General Business Law. Systems has moved to dismiss the counterclaims on the grounds that they are insufficiently pleaded and otherwise fail to state a sustainable claim against Systems upon which relief may be granted.

In or about December, 1996, the Company instituted an action in the Civil Court of the City of New York, Bronx County, against Bay Plaza Famous, Inc. ("Bay Plaza"), as franchisee, and Daniel Rapoport ("Rapoport") and Theodore Wenacur as guarantors of Bay Plaza's payment and performance obligations, to recover royalty fees and advertising contributions due to the Company in the aggregate amount of \$24,672.09 under a Franchise Agreement between Bay Plaza and the Company dated November 20, 1989. In their answer, Bay Plaza and Rapoport essentially denied the material allegations of the complaint and interposed counterclaims against the Company in which they alleged essentially that the Company fraudulently induced the defendants to purchase the franchise from the Company or did so by means of negligent misrepresentations. Bay Plaza and Rapoport also alleged that by reason of the Company's allegedly fraudulent and deceitful conduct, the Company violated the General Business Law of New York. As a consequence of the foregoing, the defendants are seeking damages in excess of 5.5 million dollars, as well as statutory relief under the General Business Law. The Company has moved to dismiss the counterclaims on the grounds that they are insufficiently pleaded and otherwise fail to state a sustainable claim against the Company upon which relief may be granted.

The Company was named as one of three defendants in an action recently commenced in the Supreme Court of New York, Queens County. According to the complaint, the plaintiff, a dentist, is seeking 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 claims that the landlord fraudulently induced him to enter into a lease extension by representing that the first floor of the building would be occupied by a non-food establishment.

The Company believes that there is no merit to the plaintiff's claims against it inasmuch as it never was a party to the lease, and the restaurant, which closed in or about August 1995, was operated by a franchisee exclusively. Accordingly, the Company intends to move to dismiss the complaint and otherwise intends to defend the action vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

COMMON STOCK PRICES

The Company's common stock began trading on the over-the-counter market on February 26, 1993 and is quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") on the National Market System under the symbol "NATH." The following table sets forth the high and low closing share prices per share for the periods indicated:

	High	Low

Fiscal year ended March 31, 1996		
First quarter	\$ 4 3/4	\$ 3 3/4
Second quarter	4 7/8	3 1/2
Third quarter	4 7/16	3
Fourth quarter	6	3 1/4
Fiscal year ended March 30, 1997		
First quarter	\$ 4 1/8	\$ 3
Second quarter	3 1/2	2 3/4
Third quarter	4	2 15/16
Fourth quarter	4 7/16	3 1/2

At June 4, 1997 the closing price per share for the Company's common stock, as reported by NASDAQ was \$3 11/32.

DIVIDEND POLICY

The Company has not declared or paid a cash dividend on its common stock since its initial public offering. It is the policy of the Board of Directors of the Company to retain all available funds to finance the development and growth of the Company's business. The payment of cash dividends in the future will be dependent upon the earnings and financial requirements of the Company.

SHAREHOLDERS

As of June 4, 1997 the Company had 361 shareholders of record, exclusive of shareholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers.

	FISCAL YEARS ENDED				
	MARCH 30, 1997	MARCH 31, 1996 (1)	MARCH 26, 1995	MARCH 27, 1994	MARCH 28, 1993
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
Statement of Operations Data:					
Revenues:					
Sales	\$21,718	\$21,167	\$20,927	\$20,214	\$16,521
Franchise fees and royalties	3,238	3,249	3,448	3,591	4,408
License royalties and other income	1,619	2,025	1,826	1,297	800
Total revenues	26,575	26,441	26,201	25,102	21,729
Costs and Expenses:					
Cost of restaurant sales	13,031	12,833	12,270	11,260	8,953
Restaurant operating expenses	6,602	6,730	6,396	5,616	4,280
Depreciation and amortization	1,013	1,724	1,588	1,422	1,026
Amortization of intangibles	406	665	581	527	993
General and administrative expenses	4,097	5,457	5,859	4,596	3,816
Interest expense	16	28	16	22	560
Impairment of long-lived assets	----	3,907	----	----	----
Other (income) and expense	----	1,570	500	(706)	----
Total costs and expenses	25,165	32,914	27,210	22,737	19,628
Income (loss) before income taxes and extraordinary item	1,410	(6,473)	(1,009)	2,365	2,101
Income tax provision (benefit)	622	(94)	(492)	900	1,017
Earnings (loss) before extraordinary item	788	(6,379)	(517)	1,465	1,084
Extraordinary tax benefit from the utilization of net operating loss carryforwards	----	----	---	----	692
Net earnings (loss)	\$788	\$(6,379)	\$(517)	\$1,465	\$1,776
Per Share Data:					
Net earnings (loss) per share before extraordinary item	\$0.17	\$(1.35)	\$(0.11)	\$0.31	\$0.34
Extraordinary item	----	----	----	----	\$0.22
Net earnings (loss) per share	\$0.17	\$(1.35)	\$(0.11)	\$0.31	\$0.56
Dividends per share	----	----	----	----	----
Weighted average number of common shares outstanding Note (2)	4,729	4,722	4,728	4,762	3,169
Balance Sheet Data at End of Fiscal Year:					
Working capital	\$4,802	\$3,937	\$7,133	\$8,044	\$5,714
Total assets	27,794	27,765	32,430	33,002	29,507
Long term debt, net of current maturities	21	35	63	2	158
Stockholders' equity	\$21,976	\$21,142	\$27,474	\$27,958	\$24,507

Selected Restaurant Operating Data:

Systemwide Restaurant Sales:

Company-owned	\$21,718	\$21,167	\$20,927	\$20,214	\$16,521
Franchised	63,564	68,009	73,465	68,454	59,158
	=====				
Total	\$85,282	\$89,176	\$94,392	\$88,668	\$75,679
	=====				

Number of Units Open at End of Fiscal Year:

Company-owned	26	27	24	16	11
Franchised	147	178	159	163	123
Branded outlets	57	0	0	0	0
	=====				
Total	230	205	183	179	134
	=====				

Notes to Selected Financial Data

- (1) The Company's fiscal year ends on the last Sunday in March which results in a 52 or 53 week year. Fiscal 1996 was a 53 week year.
- (2) Restated to give effect to the .61458 to one reverse stock split effective December 15, 1992, stock options granted under the 1992 Stock Option Plan on December 15, 1992 and restricted stock grants awarded on December 21, 1992.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FISCAL YEAR ENDED MARCH 30, 1997 COMPARED TO FISCAL YEAR ENDED MARCH 31, 1996

REVENUES

Company-owned restaurant sales increased 2.6% or \$551,000 to \$21,718,000 for the fiscal year ended March 30, 1997 ("fiscal 1997") from \$21,167,000 for the fiscal year ended March 31, 1996 ("fiscal 1996"). Fiscal 1997 was a 52 week reporting period while fiscal 1996 was a 53 week reporting period. Comparable restaurant sales (units operating for 18 months or longer as of the beginning of the current fiscal year) increased approximately 1.0% or \$177,000 from \$17,677,000 in fiscal 1996 to \$17,854,000 in fiscal 1997 on a comparable 52 week basis. One Company-owned unit was opened during fiscal 1997 generating \$394,000 in restaurant sales. The full year effect of the Company-owned units which operated part of fiscal 1996 increased restaurant sales by \$1,062,000. The increases were partially offset by the sales decline from restaurant closures of \$700,000 and approximately \$382,000 in restaurant sales which were generated during the additional week of operations in fiscal 1996. Sales continue to be challenged by the discount strategies of the Company's principal competitors, increased competition and certain external factors that effect specific restaurants. During fiscal 1997, the Company implemented a more aggressive local store marketing campaign, value pricing strategies and introduced new products in order to address the sales environment. In March 1996, the Company completed the renovation of two of its larger restaurants and has experienced sales increases at such stores over the prior fiscal year. The Company expects to complete the renovation of another restaurant in June 1997. Plans have been developed to renovate and modernize the appearance of certain other Company-owned units.

Franchise fees and royalties decreased by \$11,000 or 0.3% to \$3,238,000 in fiscal 1997 compared to \$3,249,000 in fiscal 1996. Franchise royalties was \$2,560,000 in fiscal 1997 as compared to \$2,687,000 in fiscal 1996, representing a decrease of 4.7% or \$127,000. Franchise restaurant sales upon which royalties are based were approximately \$63,564,000 in fiscal 1997 as compared to \$68,009,000 in fiscal 1996. During fiscal 1997, Caldor, Inc. (who filed for Bankruptcy protection in September 1995) closed all franchised food service operations which included 53 Nathan's franchised units, which contributed approximately \$6,075,000 of systemwide sales and royalties of approximately \$243,000 in fiscal 1997. Franchise fee income increased to \$678,000 in fiscal 1997 as compared to \$562,000 in fiscal 1996. During fiscal 1997, the Company opened 20 new franchised restaurants in which a franchise fee was earned and 18 new licensed units in which no initial fee was earned as compared to 19 and 15, respectively, in the fiscal 1996 period. During fiscal 1997, the Company earned \$244,000 of fees associated with expired development agreements as compared to \$60,000 in fiscal 1996. Franchise fees during fiscal 1996 also included \$150,000 earned from a non-refundable exclusivity fee associated with the sale of certain exclusive rights for development within Russia. At the end of fiscal 1997 there were 147 franchised or licensed units as compared to 178 at the end of fiscal 1996.

License royalties decreased by \$95,000 or approximately 7.5% to \$1,177,000 in fiscal 1997 as compared to \$1,272,000 in fiscal 1996. The majority of this decrease results from the Company no longer amortizing the deferred fee received from SMG, Inc. in connection with their license agreement for the sale of Nathan's frankfurters in supermarkets. The amortization period concluded in February 1996.

Other income decreased by \$311,000 or 41.3% to \$442,000 in fiscal 1997 from \$753,000 in fiscal 1996 primarily due to reduced investment income derived from the Company's investment in marketable securities.

COST AND EXPENSES

Cost of restaurant sales increased by \$198,000 from \$12,833,000 in fiscal 1996 to \$13,031,000 in fiscal 1997. This increase primarily results from the fiscal 1997 change in restaurants operated as discussed along with the analysis of Company-owned restaurant sales above. As a percentage of restaurant sales, the cost of restaurant sales decreased to 60.0% in fiscal 1997 as compared to 60.6% in fiscal 1996. The initial success of the Company's marketing activities yielded the expected increases in food and paper costs as a percentage of sales which were more than offset by lower labor and benefit costs as a percentage of sales.

Restaurant operating expenses decreased as a percentage of restaurant sales from 31.8% in fiscal 1996 to 30.4% in the fiscal 1997. This decrease resulted primarily from the benefit derived from closing two unprofitable restaurants in the first quarter of fiscal 1997. Additionally, the Company renegotiated occupancy costs in a third unprofitable restaurant and benefited from lower property taxes in certain restaurants due to successful certiorri proceedings.

Depreciation and amortization decreased by \$711,000 or 41.2% from \$1,724,000 in fiscal 1996 to \$1,013,000 in fiscal 1997. Amortization of intangibles, debt issuance and pre-opening costs decreased by \$259,000 or 38.9% from \$665,000 in fiscal 1996 to \$406,000 in fiscal 1997. These decreases are primarily attributable to the reduced depreciation and amortization expense resulting from the implementation of Financial Accounting Standards Board Statement No. 121 during the fourth quarter of fiscal 1996 which resulted in an impairment charge of \$3,907,000.

General and administrative expenses decreased by \$1,360,000 or 24.9% to \$4,097,000 in fiscal 1997 as compared to \$5,457,000 in fiscal 1996. This decrease partially results from corporate staff reductions made during fiscal 1996 and the first quarter fiscal 1997. Additionally, certain one-time benefits and timing differences further lowered general and administrative expenses for fiscal 1997. As a percentage of total revenues, general and administrative costs for fiscal 1997 were 15.4% as compared to 20.6% in fiscal 1996.

INCOME TAXES

In fiscal 1997, the income tax provision was \$622,000 or 44.1% of income before income taxes. Income tax expense of \$622,000 included \$487,000 of Federal tax expense, \$89,000 of current state and local income tax expense and an adjustment of \$46,000 to the beginning of the year deferred taxes. In fiscal 1996 the income tax benefit was \$94,000 or 1.5% of loss before income taxes.

FISCAL YEAR ENDED MARCH 31, 1996 COMPARED TO FISCAL YEAR ENDED MARCH 26, 1995

REVENUES

Company-owned restaurant sales increased 1.1% or \$240,000 to \$21,167,000 for the fiscal year ended March 31, 1996 ("fiscal 1996") from \$20,927,000 for the fiscal year ended March 26, 1995 ("fiscal 1995"). Fiscal 1996 was a 53 week reporting period while fiscal 1995 was a 52 week reporting period. Approximately \$382,000 in revenue was generated during the additional week of operations. The opening of 6 Company-owned units during fiscal 1996 contributed \$2,309,000 in restaurant sales. The increases were partially offset by the decline in comparable store sales by approximately \$1,997,000, or 10.8%, which was caused by increased competition, the expansion of discounting strategies, and certain other external factors affecting specific restaurants which are generally older and significantly larger than the current restaurant designs and operate in mature markets.

Franchise fees and royalties decreased by \$199,000 or 5.8% to \$3,249,000 in fiscal 1996 compared to \$3,448,000 in fiscal 1995. Franchise royalties decreased to \$2,687,000 in fiscal 1996 as compared to \$2,890,000 in fiscal 1995, representing a decrease of

7.0% or \$203,000. Franchise restaurant sales upon which royalties are based were approximately \$68,009,000 in fiscal 1996 as compared to \$73,465,000 in fiscal 1995. In February, 1995, Caldor, Inc. decided to close all food service operations in stores whose merchandise sales did not exceed a certain threshold, which included 22 Nathan's franchised units, the effect of which lowered systemwide sales by approximately \$2,316,000 and royalties by approximately \$92,600 in fiscal 1996 as compared to fiscal 1995. Franchise fee income increased to \$562,000 in fiscal 1996 as compared to \$558,000 in fiscal 1995. During fiscal 1996, the company opened 19 new franchised restaurants in which a franchise fee was earned and 15 new licensed units in which no initial fee was earned as compared to 28 and 4, respectively, in the fiscal 1995 period. Additionally, during fiscal 1996, the Company earned \$150,000 in exclusivity fees associated with the future development of Nathan's in Russia. At the end of fiscal 1996 there were 178 franchise units as compared to 159 at the end of fiscal 1995.

License royalties increased by \$65,000 or 5.4% to \$1,272,000 in fiscal 1996 as compared to \$1,207,000 in fiscal 1995. The majority of the increase relates to increased royalties earned from SMG due to the increased sales of Nathan's packaged frankfurters in supermarkets under its licensing arrangement.

Other income increased by \$134,000 or 21.6% to \$753,000 in fiscal 1996 from \$619,000 in fiscal 1995, primarily due to increased investment income derived from the Company's investment in marketable securities.

COST AND EXPENSES

Cost of restaurant sales increased by \$563,000 or 4.6% from \$12,270,000 in fiscal 1995 to \$12,833,000 in fiscal 1996. This increase primarily resulted from costs associated with the additional Company-owned restaurants operated in fiscal 1996. As a percentage of restaurant sales, cost of restaurant sales increased to 60.6% in fiscal 1996 as compared to 58.6% in fiscal 1995. This increase is primarily due to increased labor and associated benefit costs resulting from the impact of sales declines in the comparable stores on the fixed labor cost components.

Restaurant operating expenses increased as a percentage of restaurant sales from 30.6% in fiscal 1995 to 31.8% in fiscal 1996 primarily due to higher energy and occupancy costs as a percentage of sales. Much of the of this percentage increase is attributable to the relatively fixed nature of certain costs, while comparable store sales declined.

Depreciation and amortization increased by \$136,000 or 8.6% from \$1,588,000 in fiscal 1995 to \$1,724,000 in fiscal 1996. This increase is primarily attributable to the depreciation on the additional Company-owned units.

Amortization of intangibles and debt issuance costs increased by \$84,000 or 14.5% from \$581,000 in fiscal 1995 to \$665,000 in fiscal 1996. This increase is primarily attributable to the additional amortization of pre-opening costs associated with new restaurants.

General and administrative expenses decreased by \$402,000 or 6.9% to \$5,457,000 in fiscal 1996 as compared to \$5,859,000 in fiscal 1995. This decrease is primarily the result of corporate staff reductions implemented in the beginning of the fiscal year.

In the fourth quarter of fiscal 1996, the Company has adopted SFAS 121. The initial non-cash charge upon adoption of this new accounting standard was \$3,907,000, which included \$609,000 associated with restaurants that were decided to be closed. As a result of the reduced carrying value for the affected long-lived assets that will continue to be used in the business, the Company expects future annual depreciation expense to be reduced by approximately \$563,000. As the initial charge was based upon estimated cash flow forecasts requiring significant judgement by management, actual results could differ significantly from the estimates used.

In fiscal 1996, the Company provided \$690,000 associated with certain store closure costs, \$500,000 relating to costs associated with outstanding litigation and \$380,000 relating to the default by a subtenant under the terms of a sublease agreement which have been recorded as other income and (expense) in the accompanying 1996 statement of operations.

INCOME TAXES

In fiscal 1996, the income tax benefit was \$94,000 or 1.5% of loss before income taxes. Income tax benefit of \$94,000 included \$571,000 of Federal tax benefits offset by \$60,000 of current state and local income tax expense and an adjustment of \$417,000

to the beginning of the year deferred taxes. The income tax benefit relating to the fiscal 1996 loss before income taxes, before the valuation allowance, was \$2,460,000 or 38.0% of loss before income taxes. In fiscal 1995, the income tax benefit was \$492,000 or 48.8% of loss before income taxes.

FOURTH QUARTER ADJUSTMENTS

The fourth quarter of fiscal 1996 included adjustments of (i) \$3,907,000 relating to the Company's decision to early adopt the provisions of SFAS No. 121; (ii) \$690,000 for certain other store closure costs; (iii) \$500,000 of additional reserve relating to outstanding litigation against the Company; (iv) \$380,000 of accrued rental expenses resulting from the default of a sub-lessee for space which is not expected to be utilized by the Company; and \$324,000 of severance and related costs with respect to limited staff reductions at the corporate level.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at March 30, 1997 aggregated \$647,000. At March 30, 1997, marketable investment securities totalled \$7,640,000 and net working capital increased to \$4,802,000 from \$3,937,000 at March 31, 1996. Shareholder's equity was \$21,976,000.

Cash provided by operations of \$762,000 in fiscal 1997 is primarily attributable to net income of \$788,000, non-cash charges of \$1,651,000, including depreciation and amortization of \$1,419,000, decreases in prepaid income taxes of \$746,000, decreases in accounts payable and accrued expenses of \$306,000, increase in marketable investment securities of \$1,512,000, increases in prepaids and other current assets of \$178,000 and decreases in deferred area development fees and other non-current liabilities of \$200,000 and \$271,000, respectively.

Cash used in investing activities of \$896,000 represents property and equipment purchases relating to the construction of a new Company-owned unit which opened in July 1996, and other fixed asset additions.

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

SEASONALITY

The Company's business is affected by seasonal fluctuations. Historically, sales and earnings have been highest during the first two fiscal quarters with the fourth fiscal quarter representing the slowest period. This seasonality is primarily attributable to weather conditions in the Company's marketplace for its Company-owned stores, which is principally the New York metropolitan area.

IMPACT OF INFLATION

During the past several years the Company's commodity costs have remained relatively stable. As such, management believes that inflation has not materially impacted earnings. Substantial increases in labor, food and other operating expenses could adversely affect the operations of the Company and the restaurant industry. In 1996, legislation was enacted which increased the Federal minimum wage, from \$4.25 per hour to \$4.75 beginning October 1, 1996 with another increase to \$5.15 per hour to take effect on September 1, 1997. The Company expects to experience higher labor costs on a relatively small proportion of its workforce. Management believes that there may be some ability to adjust prices and implement cost controls to avoid reducing operating margins.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective March 30, 1997, the Company adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation." This statement establishes financial accounting and reporting

standards for stock-based employee compensations plans. The provisions of SFAS No. 123 encourage entities to adopt a fair value based method of accounting for stock compensation plans; however, these provisions also permit the Company to continue to measure compensation costs under pre-existing accounting pronouncements. If the fair value based method of accounting is not adopted, SFAS No. 123 requires pro forma disclosures of net income and net income per share in the notes to the financial statements.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS No. 128), "Earnings Per Share." This statement establishes standards for computing and presenting earnings per share ("EPS"), replacing the presentation of currently required primary EPS with a presentation of Basic EPS. For entities with complex capital structures, the statement requires the dual presentation of both Basic EPS and Diluted EPS on the face of the statement of operations. Under this new standard, Basic EPS is computed based on weighted average shares outstanding and excludes any potential dilution; Diluted EPS reflects potential dilution from the exercise or conversion of securities into common stock or from other contracts to issue common stock and is similar to the currently required fully diluted EPS. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and earlier application is not permitted. When adopted, the Company will be required to restate its EPS data for all prior periods presented. The Company does not expect the impact of the adoption of this statement to be material to previously reported EPS amounts.

Effective March 31, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS No. 107), "Disclosures about Fair Value of Financial Instruments." To meet the reporting requirements of SFAS No. 107, the Company calculated the fair value of financial instruments and includes this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. When the fair value is equal to the book value, no additional disclosure is made. The Company uses quoted market prices whenever available to calculate the fair value. When quoted prices are not available, the Company uses standard pricing models for various types of financial instruments which take into account the present value of future cash flows. At March 30, 1997, the carrying value of all financial instruments approximated fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data is submitted as a separate section of this report beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On September 8, 1995, the Board of Directors determined to replace KPMG Peat Marwick LLP, the Company's independent auditors for the fiscal year ended March 26, 1995, with Arthur Andersen LLP, the Company's auditors for the fiscal years ended March 31, 1996 and March 30, 1997. The decision to change independent accountants was recommended to the Board of Directors by the Audit Committee of the Board of Directors.

In connection with the audit for the Company's fiscal year ended March 26, 1995 and for the period from March 27, 1995 through the date of change in auditors, there were no disagreements with KPMG Peat Marwick LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to their satisfaction, would have caused it to make a reference to the subject matter of the disagreement in connection with its report.

The report of KPMG Peat Marwick LLP for the year ended March 26, 1995 does not contain an adverse opinion or a disclaimer of opinion, or a qualification or modification as to uncertainty, audit scope or accounting principles, except that the Company changed its method of accounting for investments to adopt the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" at March 27, 1994 and its method of accounting for income taxes in 1994 to adopt the provisions of SFAS No. 109, "Accounting for Income Taxes."

The Company has not had any discussions nor received any written reports or oral advice from Arthur Andersen LLP during the two most recent fiscal years and any subsequent interim period with respect to either the application of accounting principles to a specified transaction, either completed or proposed, or as to the type of audit opinion that might be rendered on the Company's financial statements.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information with respect to the executive officers of the Company, see "Executive Officers of the Registrant" in Part I of this Report. Information with respect to the Directors of the Company is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to the Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements listed in the accompanying index to consolidated financial statements and schedule on Page F-1 are filed as part of this report.

(2) FINANCIAL STATEMENT SCHEDULE

The consolidated financial statement schedule listed in the accompanying index to consolidated financial statements and schedule on Page F-1 is filed as part of this report.

(3) EXHIBITS

Certain of the following exhibits (as indicated in the footnotes to the list), were previously filed as exhibits to other reports or registration statements filed by the Registrant under the Securities Act of 1993 or under the Securities Exchange Act of 1934 and are herein incorporated by reference.

Exhibit

No. ---	Exhibit -----
3.1	Certificate of Incorporation of the Company.(Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 No. 33-56976.)
3.2	Amendment to the Certificate of Incorporation, filed December 15, 1992.(Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 No. 33-56976.)
3.3	By-Laws of the Company.(Incorporated by reference to Exhibit 3.3 to Registration Statement on Form S-1 No. 33-56976.)
3.4	Amendment to By-Laws of the Company (Incorporated by reference to Exhibit 3.4 to the Annual Report on form 10-K for the year ended March 26, 1995.)

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- 4.1 Specimen Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-1 No. 33-56976.)
- 4.2 Form of Warrant issued to Ladenburg, Thalmann & Co., Inc. (Incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-1 No. 33-56976.)
- 4.3 Form of Warrant issued to Howard M. Lorber. (Incorporated by reference to Exhibit 4.3 to the Annual Report filed on form 10-K for the fiscal year ended March 27, 1994.)
- 4.4 Amendment to Warrant issued to Howard M. Lorber (Incorporated by reference to Exhibit 4.4 to the Annual Report filed on form 10-K for the fiscal year ended March 31, 1996.)
- 4.5 Specimen Rights Certificate (Incorporated by reference to Exhibit 4 to the Current Report on form 8-K dated July 14, 1995.)
- 10.1 Employment Agreement between the Company and Wayne Norbitz, dated December 28, 1992. (Incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 No. 33-56976.)
- 10.2 Leases for premises at Coney Island, New York, as follows:
(Incorporated by reference Exhibit 10.3 to Registration Statement on Form S-1 No. 33-56976.)
- a) Lease, dated November 22, 1967, between Nathan's Realty Associates and the Company.
 - b) Lease, dated November 22, 1967, between Id"s Realty Associates and the Company.
 - c) Lease, dated November 17, 1967, between Id"s Realty Associates and the Company.
- 10.3 Leases for the premises at Yonkers, New York, as follows: (Incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-1 No. 33-56976.)
- a) Lease Modification of Land and Building Lease between the Yonkers Corp. and the Company, dated November 19, 1980;
 - b) Lease Modification of Land and Building Lease between 787 Central Park Avenue, Inc., and the Company dated May 1, 1980.
- 10.4 Lease between the Company and NWCM Corp. for premises at Oceanside, New York, dated March 14, 1975. (Incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 No. 33-56976.)
- 10.5 1992 Stock Option Plan of the Company, as amended. (Incorporated by reference to Exhibit 10.8 to Registration Statement on Form S-8 No. 33-93396.)
- 10.6 Area Development Agreement between the Company and Marriott Corporation, dated February 19, 1993. (Incorporated by reference to Exhibit 10.9(a) to the Annual Report on Form 10-K for the fiscal year ended March 28, 1993.)
- 10.7 Area Development Agreement between the Company and Premiere Foods, dated September 11, 1990. (Incorporated by reference to Exhibit 10.10 to Registration Statement on Form S-1 No. 33-56976.)
- 10.8 Area Development Agreement between the Company and Caldor, Inc. dated March 31, 1992. (Incorporated by reference to Exhibit 10.11 to Registration Statement on Form S-1 No. 33-56976.)
- 10.9 Form of Standard Franchise Agreement. (Incorporated by reference to Exhibit 10.12 to Registration Statement on Form S-1 No. 33-56976.)
- 10.10 The Company's 401K Plan and Trust. (Incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 No. 33-56976.)
- 10.11 Settlement Agreement between the Company and Blackwell Estates, Inc. and Ellen Investors Corp. relating to the 42nd Street urban development condemnation award. (Incorporated by reference to Exhibit 10.16 to Registration Statement on Form S-1 No. 33-56976.)
- 10.12 Restricted Stock Grant letter to Mr. Norbitz. (Incorporated by reference to Exhibit 10.17 to Registration Statement on Form S-1 No. 33-56976.)
- 10.13 Agreement dated January 11, 1993, between the Company and Nathan's Famous Associates. (Incorporated by reference to Exhibit 10.18 to Registration Statement on Form S-1 No. 33-56976.)
- 10.14 Amendment dated November 8, 1993, to the Employment Agreement, dated December 28, 1992, between the Company and Wayne Norbitz. (Incorporated by reference to Exhibit 10.19 to the Annual Report filed on form 10-K for the fiscal year ended March 27, 1994.)
- 10.15 Employment Agreement between the Company and Howard M. Lorber dated November 8, 1993. (Incorporated by reference to Exhibit 10.20 to the Annual Report filed on form 10-K for the fiscal year ended March 27, 1994.)
- 10.16 Amendment dated January 26, 1996, to the Employment Agreement, dated

November 8, 1993, between the Company and Howard M. Lorber.
(Incorporated by reference to Exhibit 10.16 to the Annual Report filed
on form 10-K for the fiscal year ended March 31, 1996.)

- 10.17 License Agreement dated as of February 28, 1994, among Nathan's Famous Systems, Inc. and SMG, Inc., including amendments and waivers thereto. (Incorporated by reference to Exhibit 10.21 to the Annual Report filed on form 10-K for the fiscal year ended March 27, 1994.)
- 10.18 Form of Grid Note from Nathan's Famous Operating Corp. to Chemical Bank. (Incorporated by reference to Exhibit 10.18 to the Annual Report filed on form 10-K for the fiscal year ended March 31, 1996.)
- 10.19 Outside Director Stock Option Plan. (Incorporated by reference to Exhibit 10.22 to Registration Statement on Form S-8 No. 33-89442.)
- 10.20 Home Depot Food Service Lease Agreement. (Incorporated by reference to Exhibit 10.24 to the Annual Report filed on form 10-K for the fiscal year ended March 26, 1995.)
- 10.21 Form of Rights Agreement dated July 14, 1995 between the Company and American Stock Transfer & Trust Company. (Incorporated by reference to Exhibit 4 to the Current Report filed on form 8-K dated July 14, 1995.)
- 10.22 Modification Agreement to the Employment Agreement between the Company and Wayne Norbitz, dated December 28, 1992. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report filed on form 10-Q for the fiscal quarter ended December 29, 1996.)
- 10.23 Amendment to License Agreement dated as of February 28, 1994, among Nathan's Famous Systems, Inc. and SMG, Inc. including waivers and amendments thereto. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report filed on form 10-Q for the fiscal quarter ended December 29, 1996.)
- 10.24 Warrant Agreement dated November 24, 1996 between the Company and Jerry Krevans.
- 21 List of Subsidiaries of the Registrant.
- 24.1 Consent of KPMG Peat Marwick LLP
- 24.2 Consent of Arthur Andersen LLP.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K have been filed during the last quarter covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized on the 18 day of June, 1997.

Nathan's Famous, Inc.

/s/ WAYNE NORBITZ

Wayne Norbitz, President and
Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 18th day of June, 1997.

/s/ HOWARD M. LORBER Chairman of the Board and Chief Executive
----- Officer (Principal Executive Officer)
Howard M. Lorber

/s/ WAYNE NORBITZ President, Chief Operating Officer and Director

Wayne Norbitz

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

/s/ ROBERT J. EIDE Director

Robert J. Eide

/s/ BARRY LEISTNER Director

Barry Leistner

/s/ JEFFREY A. LICHTENBERG Director

Jeffrey A. Lichtenberg

/s/ ATTILIO F. PETROCELLI Director

Attilio F. Petrocelli

The following consolidated financial statement of Nathan's Famous, Inc. and subsidiaries are included in item 8:

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Report of Independent Public Accountant Arthur Andersen LLP	F-2
Report of Independent Public Accountant KPMG Peat Marwick LLP	F-3
Consolidated Balance Sheets at March 30, 1997 and March 31, 1996	F-4
Consolidated Statements of Operations for the Fiscal Years ended March 30, 1997, March 31, 1996 and March 26, 1995	F-5
Consolidated Statements of Stockholder Equity for the Fiscal Years ended March 30, 1997, March 31, 1996 and March 26, 1995	F-6
Consolidated Statements of Cash Flows for the Fiscal Years ended March 30, 1997, March 31, 1996 and March 26, 1995	F-7
Notes to the Consolidated Financial Statements	F-8

To the Board of Directors and Stockholders of
Nathan's Famous, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Nathan's Famous, Inc., a Delaware Corporation, and subsidiaries as of March 30, 1997 and March 31, 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nathan's Famous, Inc. and subsidiaries as of March 30, 1997 and March 31, 1996, and the results of their operations and their cash flows for each of the two years in the period then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in fiscal 1996, the Company changed its method of accounting for long-lived assets to conform with SFAS No. 121, and in connection therewith, recorded an impairment loss of approximately \$3,900,000.

Arthur Andersen LLP

Roseland, New Jersey
May 22, 1997

Independent Auditors' Report

The Board of Directors and Stockholders
Nathan's Famous, Inc. and Subsidiaries:

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Nathan's Famous, Inc. and subsidiaries for the year ended March 26, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Nathan's Famous, Inc. and subsidiaries for the year ended March 26, 1995 in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Jericho, New York
May 16, 1995

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

ASSETS	March 30, 1997 ----	March 31, 1996 ----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 647	\$ 801
Marketable investment securities	7,640	6,128
Franchise and other receivables, net	1,039	1,108
Inventories	213	226
Prepaid income taxes	--	746
Prepaid expenses and other current assets	502	331
Deferred income taxes	415	571
	-----	-----
Total current assets	10,456	9,911
Property and equipment, net	5,480	5,615
Intangible assets, net	11,640	12,025
Other assets, net	218	214
	-----	-----
	\$ 27,794	\$ 27,765
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current installments of obligations under capital leases	\$ 17	\$ 23
Accounts payable	754	1,003
Accrued expenses and other current liabilities	4,614	4,671
Deferred franchise fees	269	277
	-----	-----
Total current liabilities	5,654	5,974
Obligations under capital leases, net of current installments	21	35
Deferred area development fees	--	200
Other liabilities	143	414
	-----	-----
Total liabilities	5,818	6,623
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value; 20,000,000 shares authorized, 4,722,216 issued and outstanding at March 30, 1997 and March 31, 1996, respectively	47	47
Additional paid-in capital	32,307	32,261
Accumulated deficit	(10,378)	(11,166)
	-----	-----
Total stockholders' equity	21,976	21,142
	-----	-----
	\$ 27,794	\$ 27,765
	=====	=====

The accompanying notes are an integral part of these balance sheets.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Fiscal Year Ended		
	March 30, 1997	March 31, 1996	March 26, 1995
	-----	-----	-----
REVENUES:			
Sales	\$21,718	\$ 21,167	\$ 20,927
Franchise fees and royalties	3,238	3,249	3,448
License royalties	1,177	1,272	1,207
Investment and other income	442	753	619
	-----	-----	-----
Total revenues	26,575	26,441	26,201
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of restaurant sales	13,031	12,833	12,270
Restaurant operating expenses	6,602	6,730	6,396
Depreciation and amortization	1,013	1,724	1,588
Amortization of intangible assets	406	665	581
General and administrative expenses	4,097	5,457	5,859
Interest expense	16	28	16
Impairment of long-lived assets	--	3,907	--
Other expense	--	1,570	500
	-----	-----	-----
Total costs and expenses	25,165	32,914	27,210
	-----	-----	-----
Income (loss) before provision (benefit) for income taxes	1,410	(6,473)	(1,009)
Provision (benefit) for income taxes	622	(94)	(492)
	-----	-----	-----
Net income (loss)	\$ 788	\$ (6,379)	\$ (517)
	=====	=====	=====
Net income (loss) per common share	\$.17	\$ (1.35)	\$ (.11)
	=====	=====	=====
Weighted average number of common and common equivalent shares outstanding	4,729	4,722	4,728
	=====	=====	=====

The accompanying notes are an integral part of these consolidated statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Common Shares -----	Common Stock -----	Additional Paid-in Capital -----	Deferred Compensation -----	Accumulated Deficit -----	Total Stockholders' Equity -----
BALANCE, March 27, 1994	4,732,232	\$47	\$ 32,457	\$(276)	\$ (4,270)	\$ 27,958
Amortization of deferred compensation relating to restricted stock	--	--	--	54	--	54
Forfeiture of deferred compensation	(10,016)	--	(69)	48	--	(21)
Net loss	--	--	--	--	(517)	(517)
	-----	---	-----	-----	-----	-----
BALANCE, March 26, 1995	4,722,216	47	32,388	(174)	(4,787)	27,474
Amortization of deferred compensation relating to restricted stock	--	--	--	47	--	47
Net loss	--	--	--	--	(6,379)	(6,379)
	-----	---	-----	-----	-----	-----
BALANCE, March 31, 1996	4,722,216	47	32,388	(127)	(11,166)	21,142
	=====	===	=====	=====	=====	=====
Amortization of deferred compensation relating to restricted stock	--	--	--	46	--	46
Net income	--	--	--	--	788	788
	-----	---	-----	-----	-----	-----
BALANCE, March 30, 1997	4,722,216	\$47	\$32,388	\$(81)	\$(10,378)	\$21,976
	=====	===	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Fiscal Year Ended		
	March 30, 1997	March 31, 1996	March 26, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 788	\$(6,379)	\$ (517)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,013	1,724	1,588
Impairment of long-lived assets	--	3,907	--
Amortization of intangible assets	406	665	581
Provision for doubtful accounts	30	339	252
Amortization of deferred compensation	46	47	33
Deferred income taxes	156	(154)	(473)
Changes in operating assets and liabilities:			
Marketable investment securities	(1,512)	(2,032)	3,848
Franchise and other receivables	39	(160)	(383)
Inventories	13	15	16
Prepaid and other assets	(178)	(55)	(434)
Prepaid income taxes	746	(122)	(308)
Accounts payable and accrued expenses	(306)	1,546	227
Deferred franchise fees	(8)	77	(120)
Deferred area development fees	(200)	(85)	50
Other non-current liabilities	(271)	256	(49)
Net cash provided by (used in) operating activities	762	(411)	4,311
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(896)	(2,984)	(2,108)
Disposals of property and equipment	--	125	--
Net cash used in investing activities	(896)	(2,859)	(2,108)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal repayments of obligations under capital leases	(20)	(15)	(26)
Net cash used in financing activities	(20)	(15)	(26)
Net change in cash and cash equivalents	(154)	(3,285)	2,177
CASH AND CASH EQUIVALENTS, beginning of year	801	4,086	1,909
CASH AND CASH EQUIVALENTS, end of year	\$ 647	\$ 801	\$ 4,086
CASH PAID DURING THE YEAR FOR:			
Interest	\$ 16	\$ 26	\$ 15
Income taxes	\$ 182	\$ 685	\$ 769

The accompanying notes are an integral part of these consolidated statements.

NATHAN'S FAMOUS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share amounts)

1. DESCRIPTION AND ORGANIZATION OF BUSINESS:

Description of Business

Nathan's Famous, Inc. and Subsidiaries (collectively the "Company") develops and operates a chain of retail fast food style restaurants which prepare and serve quality food products to the general public. Nathan's Famous Restaurants feature a specialized menu which includes, among other things, hot dogs, manufactured with a proprietary spice formula, hamburgers, crinkle-cut french fries, assorted sandwiches and platters. The Company primarily operates in the eastern region of the United States, with 26 Company-owned stores and 147 franchised units as of March 30, 1997.

Organization of Business

In July 1987, all of the outstanding shares, options and warrants of Nathan's Famous, Inc. (the "Predecessor Company"), a then publicly held New York corporation, were acquired through a cash transaction, accounted for by the purchase method of accounting (the "Acquisition"). In connection with the Acquisition, a privately-held New York corporation (the "Acquiring Corporation") was merged into the Predecessor Company. The purchase price exceeded the fair value of the acquired assets of the Predecessor Company by \$15,374, and such amount is recorded net of accumulated amortization in the accompanying consolidated balance sheets. In November 1989, the surviving corporation was merged with Nathan's Newco, Inc., a Delaware corporation which, upon the effectiveness of the merger, changed its name to Nathan's Famous, Inc. ("NFI").

In August 1992, as part of a bank refinancing, two new Delaware corporations were formed, Nathan's Famous Holding Corp. ("NFH") and Krinkle Kut, Inc. ("KK"). Pursuant to a merger agreement, KK was merged into NFI and NFI became a wholly-owned subsidiary of NFH. As a result of this merger, the former holders of the outstanding common stock of NFI owned the outstanding shares of NFH in the same proportion in which they formerly held the stock of NFI. On December 15, 1992, NFI and NFH amended their charter to change their respective names to Nathan's Famous Operating Corp. ("NFOC") and Nathan's Famous, Inc.

On February 26, 1993, the Company completed an initial public offering in which it sold 1,500,000 shares of common stock at an offering price of \$9.00 per share. The net proceeds from the offering, after deducting underwriters' commissions and offering costs of approximately \$1,850, was \$11,654. The Company used \$5,917 of the net proceeds from the public offering to retire a term loan with a bank. In April 1993, the underwriter exercised its overallotment option to purchase an additional 225,000 shares of common stock at the offering price, resulting in additional proceeds to the Company of \$1,863, net of underwriters' commissions.

In fiscal 1994, NFOC formed two new corporations, Nathan's Famous Systems, Inc. and Nathan's Famous Services, Inc., for the purpose of establishing separate franchise and restaurant management support organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year ends on the last Sunday in March, which results in a 52 or 53 week reporting period. The results of operations for fiscal 1996 are presented on the basis of a 53 week reporting period, and fiscal 1997 and 1995 are presented on the basis of 52 week reporting periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash restricted for untendered shares associated with the Acquisition amounted to \$280 at March 30, 1997 and March 31, 1996, and is included in cash and cash equivalents.

Inventories

Inventories consist primarily of restaurant food items and supplies and are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

Marketable Investment Securities

The Company classifies its investments in marketable investment securities as "trading" in accordance with Statement of Financial Accounting Standards No. 115 ("SFAS No. 115"), "Accounting for Certain Investments in Debt and Equity Securities". Such securities are reported at fair value, with unrealized gains and losses included in earnings. Gains and losses on the disposition of securities are recognized on the specific identification method in the period in which they occur.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated primarily on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term of the related asset. The estimated useful lives are as follows:

Building and improvements	5 - 25 years
Machinery, equipment, furniture and fixtures	5 - 15 years
Leasehold improvements	5 - 20 years

Intangible Assets

Intangible assets consist principally of the excess of cost over the fair value of the assets acquired relating to the Acquisition and is being amortized over a period of 40 years. Accumulated amortization at March 30, 1997 and March 31, 1996, was \$3,734 and \$3,349, respectively. Amortization expense was \$414, \$665 and \$542 for fiscal years ended March 30, 1997, March 31, 1996, and March 26, 1995, respectively.

The Company assesses the recoverability of the excess of cost over the fair value of assets acquired by determining whether the amortization of the balance over its estimated remaining life can be recovered through, among other things, undiscounted future operating cash flows of the acquired operations, franchise fees earned from franchising operations and license fees earned from the licensing of Company products. The amount of impairment, if any, is measured based on projected undiscounted future operating cash flows.

Recently Issued Accounting Standards

Effective March 31, 1996, the Company adopted Statement of Financial Accounting Standards No. 107 (SFAS No. 107), "Disclosures about Fair Value of Financial Instruments". To meet the reporting requirements of SFAS No. 107, the Company calculates the fair value of financial instruments and includes this additional information in the notes to financial statements when the fair value is different than book value of those financial instruments. When the fair value is equal to the book value, no additional disclosure is made. The Company uses quoted market prices whenever available to calculate the fair value. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments which take into account the present value of estimated future cash flows. At March 31, 1996, the carrying value of all financial instruments approximated fair value (Note 5).

Effective March 30, 1997, the Company adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". This statement establishes financial accounting and reporting standards for stock-based employee compensation plans. The provisions of SFAS No. 123 encourage entities to adopt a fair value based method of accounting for stock compensation plans; however, these provisions also permit the Company to continue to measure compensation costs under pre-existing accounting pronouncements. If the fair value based method of accounting is not adopted, SFAS No. 123 requires pro forma disclosures of net income and net income per share in the notes to the financial statements (Note 10).

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. This statement establishes standards for computing and presenting earnings per share ("EPS"), replacing the presentation of currently required primary EPS with a presentation of Basic EPS. For entities with complex capital structures, the statement requires the dual presentation of both Basic EPS and Diluted EPS on the face of the statement of operations. Under this new standard, Basic EPS is computed based on weighted average shares outstanding and excludes any potential dilution; Diluted EPS reflects potential dilution from the exercise or conversion of securities into common stock or from other contracts to issue common stock and is similar to the currently required fully diluted EPS. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and earlier application is not permitted. When adopted, the Company will be required to restate its EPS data for all prior periods presented. The Company does not expect the impact of the adoption of this statement to be material to previously reported EPS amounts.

Franchise and Area Development Fee Revenue Recognition

Franchisees are required to execute a separate franchise or license agreement for each restaurant. Under an area development agreement, the number of restaurants and the area designated for development are established and the franchisee is required to construct and open such restaurants within a defined timetable. For each restaurant under an area development agreement, a separate franchise or license agreement is executed.

Franchisees under a franchise agreement are generally required to pay an initial franchise fee and a monthly royalty of 4% - 4.5% of restaurant sales.

Franchisees under a license agreement do not pay an initial fee and remit monthly royalty payments based on 10% of restaurant sales up to \$250, 8% of restaurant sales between \$250 and \$500 and 6% of restaurant sales in excess of \$500 per annum. Franchise fees are recognized as revenue when the Company performs substantially all initial services required by the franchise agreement, which is generally upon restaurant opening. Revenue under area development agreements is recognized ratably over the number of restaurants opened, as provided for in the respective agreements. Franchise royalties are accrued as earned. Franchise and area development fees received prior to completion of the revenue recognition process are recorded as deferred revenue. At March 30, 1997 and March 31, 1996, \$269 and \$477, respectively, of deferred franchise and area development fees are included in the accompanying consolidated balance sheets.

Concentrations of Credit Risk

The Company's trade receivables consist principally of receivables from franchisees for royalties and advertising contributions. At March 30, 1997 and March 31, 1996, two and three franchisees, respectively, represented an aggregate of approximately 40% and 39%, respectively, of franchise royalties receivable. At March 26, 1995, no one franchise receivable exceeded 5% of franchise royalties receivable.

Advertising

The Company maintains advertising funds for local, regional and national advertising, in accordance with Section 10 of the Nathan's Famous Systems, Inc. Franchise Agreement. Under this arrangement, the Company collects and disburses fees paid by franchisees and Company-owned stores for the national and regional advertising, promotional and public relations programs for the Nathan's Famous concept. Contributions are based on specified percentages of net sales, generally ranging between 0%-3%. Advertising contributions from Company-owned stores are included in restaurant operating expenses in the accompanying consolidated statements of operations. Total Company-owned store advertising expense was \$570, \$625 and \$1,009 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively. Total advertising contributions realized from franchisees was \$308, \$377 and \$517 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively, and is recorded as an offset to advertising expense in general and administrative expenses. The Company charges all production costs of advertising to expense when the advertisements are run.

The Company funds, on an annual basis, the excess of any expenditures over revenues, if any, and records such amount in general and administrative expenses in the accompanying consolidated statements of operations. For the fiscal year ended March 26, 1995, excess expenditures over revenues aggregated \$439. There were no excess expenditures for the years ended March 30, 1997 and March 31, 1996.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

Earnings Per Share

Weighted average common and common equivalent shares outstanding for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995 were 4,728,883, 4,722,216 and 4,727,732, respectively, and included common stock equivalents of 26,668, 0 and 0, respectively.

Reclassifications

Certain reclassifications of prior period balances have been made to conform with the current year presentation.

3. IMPAIRMENT OF LONG-LIVED ASSETS:

The Company early adopted SFAS No. 121 in fiscal 1996 for purposes of determining and measuring impairment of certain long-lived assets to be held and used in the business as well as assets to be disposed of. The Company considers a history of store operating losses to be its primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. The Company has identified the appropriate grouping of assets to be individual restaurants, and such assets are deemed to be impaired if a forecast of undiscounted future operating cash flows, including disposal value, if any, is less than its carrying amount. The loss is measured as the amount by which the carrying amount of the assets exceeds its fair value. The Company generally measures fair value by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows and, accordingly, actual results could vary significantly from such estimates.

The impairment loss recorded upon adoption of SFAS No. 121 was \$3,907 in fiscal 1996, which includes \$609 related to three restaurants for which closure decisions were made upon adoption of SFAS No. 121. In addition, approximately \$690 was recorded relating to associated store closure costs. As a result of the reduced carrying amount of the impaired assets, depreciation and amortization expense for fiscal 1997 was reduced by approximately \$563 for stores that continue in operation.

The results of operations for stores to be closed were as follows for the years ended March 30, 1997, March 31, 1996 and March 26, 1995:

	1997	1996	1995
	----	----	----
Revenues	\$ 331	\$ 1,089	\$ 541
Operating expenses	399	1,453	594
Depreciation	--	108	67
Losses from stores to be closed	(68)	(472)	(120)

4. FRANCHISE AND OTHER RECEIVABLES:

Franchise and other receivables consists of the following:

	1997	1996
	-----	-----
Franchise royalties	\$1,116	\$1,304
License royalties	136	42
Other	368	341
	-----	-----
	1,620	1,687
Less: allowance for doubtful accounts	581	579
	-----	-----
	\$1,039	\$1,108
	=====	=====

5. MARKETABLE INVESTMENT SECURITIES:

Marketable investment securities at March 30, 1997 and March 31, 1996 consisted of trading securities with aggregate fair values of \$7,640 and \$6,128, respectively. Fair values of corporate and municipal bonds are based upon quoted market prices. The investment in trading limited partnerships are based upon the proportionate share of the underlying net assets of the partnerships.

The gross unrealized holding gains and fair values of trading securities by major security type at March 30, 1997, March 31, 1996 and March 26, 1995 were as follows:

	1997		1996		1995	
	Gross Unrealized Holding Gain	Fair Value of Investments	Gross Unrealized Holding Gain	Fair Value of Investments	Gross Unrealized Holding Gain	Fair Value of Investments
	-----	-----	-----	-----	-----	-----
Commercial paper	\$ --	\$2,275	\$ --	\$ --	\$ --	\$ --
Corporate bonds	(2)	2,451	15	514	6	506
Municipal bonds	54	2,111	88	4,274	41	2,447
Investment in trading limited partnerships	303	803	340	1,340	143	1,143
	-----	-----	-----	-----	-----	-----
	\$ 355	\$7,640	\$ 443	\$6,128	\$ 190	\$4,096
	=====	=====	=====	=====	=====	=====

6. PROPERTY AND EQUIPMENT, net:

Property and equipment, net consists of the following:

	1997	1996
	-----	-----
Construction in progress	\$ 184	\$ 40
Land	896	896
Building and improvements	1,036	1,032
Machinery, equipment, furniture and fixtures	4,231	4,015
Leasehold improvements	5,699	5,140
	-----	-----
	12,046	11,123
Less: accumulated depreciation and amortization	6,566	5,508
	-----	-----
	\$ 5,480	\$ 5,615
	=====	=====

Related depreciation and amortization expense totalled \$1,013, \$1,724 and \$1,588 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities consist of the following:

	1997	1996
	-----	-----
Accrued professional fees	\$ 526	\$ 497
Accrued litigation	1,000	1,000
Accrued vacation	358	391
Accrued severance	--	324
Accrued store closure costs	30	545
Accrued insurance	563	209
Accrual for untendered shares	280	280
Sales and payroll taxes payable	279	334
Deferred revenue	366	46
Other	1,212	1,045
	-----	-----
	\$4,614	\$4,671
	=====	=====

8. FINANCING ARRANGEMENTS:

The Company has a \$5,000 line of credit with a certain financial institution. Borrowings under the line of credit are intended to be used to meet the normal short-term working capital needs of the Company. The line of credit is not a commitment and, therefore, credit availability is subject to ongoing approval. The line of credit expires on September 30, 1997, and bears interest at a rate of prime plus 1 percent. There were no borrowings outstanding under this line of credit at March 30, 1997 and March 31, 1996.

9. INCOME TAXES:

Income tax expense (benefit) consists of the following for the years ended March 30, 1997, March 31, 1996 and March 26, 1995:

	1997	1996	1995
	-----	-----	-----
Federal:			
Current	\$ 533	\$ (68)	\$ (78)
Deferred	--	(503)	(377)
	-----	-----	-----
	533	(571)	(455)
	-----	-----	-----
State and local:			
Current	89	60	59
Deferred	--	--	(96)
	-----	-----	-----
	89	60	(37)
	-----	-----	-----
Adjustment to valuation allowance relating to opening net deferred tax asset	--	417	--
	-----	-----	-----
	\$ 622	\$ (94)	\$(492)
	=====	=====	=====

Total income tax expense (benefit) for fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995 differed from the amounts computed by applying the United States Federal income tax rate of 34% to income (loss) before income taxes as a result of the following:

	1997	1996	1995
	-----	-----	-----
Computed "expected" tax expense (benefit)	\$ 482	\$(2,201)	\$(343)
Nondeductible amortization	144	131	131
State and local income taxes, net of Federal income tax benefit	49	40	(24)
Tax-exempt investment earnings	(50)	(49)	(65)
Change in the valuation allowance for net deferred tax assets	--	1,949	--
Reversal of prior year over accruals	--	--	(200)
Other	(3)	36	9
	-----	-----	-----
	\$ 622	\$ (94)	\$(492)
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	1997	1996
	-----	-----
Deferred tax assets:		
Accrued vacation pay	\$ 204	\$ 146
Allowance for doubtful accounts	217	226
Deferred revenue	143	--
Depreciation expense	618	678
Expenses not deductible until paid	712	623
Impairment of long-lived assets	1,404	1,524
Insurance	149	--
Accrual for store closing and severance costs	73	339
Net operating loss carryforward	47	68
Other	24	10
	-----	-----
Total gross deferred tax assets	3,591	3,614
	-----	-----
Deferred tax liabilities:		
Involuntary conversion	504	504
Unrealized gain on marketable investment securities	221	173
Other	85	--
	-----	-----
Total gross deferred tax liabilities	810	677
	-----	-----
Net deferred tax asset	2,781	2,937
	-----	-----
Less: Valuation allowance	(2,366)	(2,366)
	-----	-----
	\$ 415	\$ 571
	=====	=====

The Company anticipates utilizing a net operating loss for income tax purposes of approximately \$139,000 for the tax year ending March 30, 1997. At both March 30, 1997 and March 31, 1996, a valuation allowance of \$2,366 has been provided against that portion of net deferred tax assets for which it is more likely than not that the deferred tax assets will not be realized.

10. STOCK PLANS AND OTHER EMPLOYEE BENEFIT PLANS:

Stock Option Plans

On December 15, 1992, the Company adopted the 1992 Stock Option Plan (the "Plan") which provides for the issuance of incentive stock options (ISO's) to officers and key employees and non-qualified stock options to directors, officers and key employees. Up to 525,000 shares of common stock have been reserved for issuance under the Plan. The terms of the options are generally ten years, except for ISO's granted to any employee, who prior to the granting of the option, owns stock representing more than 10% of the voting rights, for which the option term will be five years. The exercise price for non-qualified stock options outstanding under the Plan can be no less than the fair market value, as defined, of the Company common stock at the date of grant. For ISO's, the exercise price can generally be no less than the fair market value of the Company's common stock at the date of grant, with the exception of any employee who prior to the granting of the option, owns stock representing more than 10% of the voting rights, for which the exercise price can be no less than 110% of fair market value of the Company's common stock at the date of grant.

On May 24, 1994, the Company adopted the Outside Director Stock Option Plan (the "Directors' Plan") which provides for the issuance of non-qualified stock options to non-employee directors, as defined, of the Company. Up to 200,000 shares of common stock have been reserved for issuance under the Directors' Plan. The Directors' Plan provides that each non-employee director would be granted an option to purchase 25,000 shares of common stock at a price of \$6.25 per share effective June 1, 1994, and for each subsequent year through June 1, 1996, each non-employee director would be granted options to purchase 12,500 shares of common stock at 100% of the fair market value of the common stock on the date of grant. Options awarded to each non-employee director shall vest over a period of two years, subject to forfeiture under certain conditions and shall be exercisable upon vesting. There were 50,000 options granted under the provisions of the Directors' Plan during the year ended March 30, 1997 and March 31, 1996, respectively.

The Plan and the Directors' Plan expire on December 2, 2002 and December 31, 2004, respectively, unless terminated earlier by the Board of Directors under conditions specified in the Plan.

A summary of the status of the Company's two stock option plans at March 30, 1997, March 31, 1996 and March 26, 1995 and changes during the years then ended is presented in the table and narrative below:

	1997		1996		1995	
	Shares	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
Options outstanding-						
beginning of year	511,167	\$ 5.99	376,167	\$ 6.80	190,667	\$ 7.54
Granted	110,000	3.75	175,000	4.27	200,000	6.14
Exercised	--	--	--	--	--	--
Canceled	(20,000)	7.40	(40,000)	6.00	(14,500)	7.28
Options outstanding-						
end of year	601,167	5.54	511,167	5.99	376,167	6.80
Options exercisable-						
end of year	398,371		268,270		154,032	
Weighted average fair						
value of options granted		\$ 1.99		\$ 2.06		

295,000 of the 601,167 options outstanding at March 30, 1997 have exercise prices between \$3.38 and \$5.07, with a weighted average exercise price of \$4.09 and a weighted average remaining contractual life of 8.75 years. 117,204 of these options are exercisable; their weighted average exercise price is \$4.18. 247,167 of the options outstanding at March 30, 1997 have exercise prices between \$5.07 and \$7.61, with a weighted average exercise price of \$6.55 and a weighted average remaining contractual life of 6.70 years. 227,167 of these options are exercisable; their weighted average exercise price is \$6.58. The remaining 59,000 options have exercise prices between \$7.61 and \$9.25 with a weighted average exercise price of \$8.53 and a weighted average remaining contractual life of 6.08 years. 54,000 of these options are exercisable; their weighted average exercise price is \$8.46.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	1997	1996
	----	----
Expected life (years)	7.5	6.8
Interest rate	6.76%	5.96%
Volatility	33.75%	33.75%
Dividend yield	0%	0%

The Company has adopted the pro forma disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined under SFAS No. 123, the Company's net income and earnings per share would approximate the pro forma amounts below:

		(in thousands, except per share amounts)	
		1997	1996
		----	----
Net income (loss):	As reported	\$798	\$ (6,379)
	Pro forma	768	(6,465)
Earnings (loss) per share	As reported	\$.17	\$ (1.35)
	Pro forma	.16	(1.37)

Because the SFAS No. 123 method of accounting is not applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Common Stock Purchase Rights

On June 20, 1995, the Board of Directors declared a dividend distribution of one common stock purchase right (the "Rights") for each outstanding share of Common Stock of the Company. The distribution was paid on June 20, 1995 to the shareholders of record on June 20, 1995. Each Right, as amended, entitles the registered holder thereof to purchase from the Company one-half share of the Common Stock at a price of \$2.50 per one-half of a share (the "Purchase Price"), subject to adjustment for anti-dilution. New Common Stock certificates issued after June 20, 1995 upon transfer or new issuance of the Common Stock will contain a notation incorporating the Rights Agreement by reference.

The Rights are not exercisable until the Distribution Date. The Distribution Date is the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") acquired, or obtained the right to acquire, beneficial ownership of 30% or more of the outstanding shares of the Common Stock or (ii) ten business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement, or announcement of an intention to make a tender offer or exchange offer by a person (other than the Company, any wholly-owned subsidiary of the Company or certain employee benefit plans) which, if consummated, would result in such person becoming an Acquiring Person. The Rights will expire on June 19, 2005, unless earlier redeemed by the Company.

At any time prior to the time at which a person or group or affiliated or associated persons has acquired beneficial ownership of 30% or more of the outstanding shares of the Common Stock of the Company, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$.001 per Right. In addition, the Rights Agreement permits the Board of Directors, following the acquisition by a person or group of beneficial ownership of 30% or more of the Common Stock (but before an acquisition of 50% or more the Common Stock), to exchange the Rights (other than Rights owned by such 30% person or group), in whole or in part, for Common Stock, at an exchange ratio of one-half of one share of Common Stock per Right.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. On June 20, 1995, 2,893,808 shares of Common Stock were reserved for issuance upon exercise of the Rights.

Warrant

In November 1993, the Company granted to its Chairman and Chief Executive Officer a warrant to purchase 150,000 shares of its common stock at an exercise price of \$9.71 per share, representing 105% of the market price of the Company's common stock on the date of grant. Commencing in November 1994, 37,500 shares vest annually and the warrant expires in 2003. Effective January 26, 1996, the warrant was amended to reduce the exercise price to \$4.50 per share.

In November 1996, the Company granted to a non-employee consultant a warrant to purchase 50,000 shares of its common stock at an exercise price of \$3.94 per share, which represented the market price of the Company's common stock on the date of grant. Upon the date of grant, one-third of the shares vest immediately, one-third on the first anniversary thereof, and the remaining one-third on the second anniversary thereof. The warrant expires on November 24, 2001.

Restricted Stock Grants

On December 21, 1992, the Company awarded an aggregate of 50,016 shares of common stock to two executive officers. Pursuant to the terms of the agreement, the shares are subject to certain restrictions which expire on December 21, 1998. The restrictions shall lapse with respect to one-third of the shares on every other December 21 beginning on December 21, 1994, and, with respect to all shares, in the event of termination of employment for any reason other than for "cause", voluntary termination for "good reason" and death or disability, as defined. If any time prior to December 21, 1998, employment of either executive officer is terminated for "cause" or any other reason not provided for under the agreement, any such shares still subject to restrictions as previously described shall be transferred to the Company without monetary consideration. In November 1994, 10,016 shares of common stock awarded as a restricted stock grant was forfeited by one of the executive officers upon termination of employment.

Compensation expense, based upon the fair market value of the stock on the date of grant, was determined by the Company to be \$7 per share. Aggregate compensation expense of \$280 will be recognized ratably over the six year period in which the restrictions lapse and has been included as deferred compensation as a component of stockholders' equity in the accompanying consolidated statement of stockholders' equity. Compensation expense was approximately \$46, \$47 and \$33 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively.

Employment Agreements

The Company and its Chairman and Chief Executive Officer entered into an employment agreement in November 1993 for a period commencing on November 1, 1993 and ending on October 31, 1997. This agreement provides for annual incentive compensation equal to 5% of the consolidated pre-tax earnings of the Company, as defined, and specified benefits. Pursuant to an amendment on January 26, 1996, the agreement also provides that upon a change in control, as defined, the officer shall have the right to terminate the agreement and receive a payment equal to approximately three times the average compensation received by him from the Company over the previous five years, and in no event shall such average compensation be deemed to be less than \$200.

The Company and its President and Chief Operating Officer entered into an employment agreement on December 28, 1992 for a period commencing on January 1, 1993 and ending on December 31, 1996. The employment agreement was extended through December 31, 1997, based on the original terms. The agreement provides for annual compensation of \$250 plus certain other benefits. In November 1993, the Company amended this agreement to include a provision under which the officer shall have the right to terminate the agreement and receive payment equal to approximately three times annual compensation upon a change in control, as defined.

Each employment agreement terminates upon death or voluntary termination by the respective employee or may be terminated by the Company upon 30 days prior written notice by the Company in the event of disability or "cause", as defined in each agreement.

401 (k) Plan

In March 1992, the Company adopted a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all non-union employees over age 21 who have been employed by the Company for at least one year. Employees may contribute to the plan, on a tax deferred basis, up to 15% of their total annual salary. Company contributions are discretionary. Beginning with the plan year ending February 28, 1994, the Company elected to match contributions at a rate of \$.25 per dollar contributed by the employee up to a maximum of 3% of the employee's total annual salary. Employer contributions for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995 were \$5, \$12 and \$12, respectively.

Other Benefits

The Company provides, on a contributory basis, medical benefits to active employees. The Company does not provide medical benefits to retirees.

11. COMMITMENTS AND CONTINGENCIES:

Commitments

The Company's operations are principally conducted in leased premises. Remaining lease terms range from 1 to 18 years. Certain leases contain contingent rental provisions based upon a percentage of gross sales and/or provide rent deferral during the initial term of the lease. As of March 30, 1997, the Company has non-cancellable operating lease commitments, net of certain sublease rental income at the store level as follows:

	Lease Commitments -----	Sublease Income -----	Net lease Commitments -----
1998	\$2,224	\$114	\$2,110
1999	2,226	114	2,112
2000	2,109	114	1,995
2001	1,467	37	1,430
2002	1,378	30	1,348
Thereafter	5,971	3	5,968

Contingent rental payments on building leases are typically made based on the percentage of gross sales on the individual restaurants that exceed predetermined levels. The percentage of gross sales to be paid and related gross sales level vary by unit. Contingent rental expense was approximately \$163, \$97 and \$45 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively.

Rent expense including contingent rental payments, net of sublease income, was \$2,186, \$2,365 and \$2,300 for the fiscal years ended March 30, 1997, March 31, 1996 and March 26, 1995, respectively.

Contingencies

On February 28, 1995, an action entitled Textron Financial Corporation v. 1045 Rush Street Associates, Stephen Anfang, and Nathan's Famous, Inc. was instituted in the Circuit Court of Cook County, Illinois County Department, Chancery Division. The complaint alleges that the Company conspired to perpetrate a fraud upon the plaintiff and alleges that the Company breached its lease with 1045 Rush Street Associates and the estoppel agreement delivered to the plaintiff in connection therewith by subleasing these premises and thereafter assigning the lease with respect thereto to a third party franchisee, and further by failing to pay rent under this lease on and after July 1990. This complaint seeks damages in the amount of at least \$1,500. The Company has filed its answer to this complaint denying the material allegations of the complaint and asserting several affirmative defenses to liability including, but not limited to, the absence initially or subsequent failure of consideration for the estoppel agreement, equitable estoppel, release, failure to mitigate and other equitable and legal defenses. The Company intends to defend the action vigorously.

On April 7, 1995, an action entitled Erwin Protter, et al. v. Nathan's Famous Systems, Inc., et al. was instituted in the United States District Court for the Eastern Division of New York against a wholly owned subsidiary of the Company and several of the Company's current or former executive officers. The complaint relating to this action alleges that this subsidiary and such persons made misstatements in connection with the acquisition by the plaintiffs of three (3) franchised restaurants. This complaint seeks approximately \$13,000 in damages, plus punitive and treble damages, to the extent appropriate. On October 21, 1995, the original complaint was dismissed as inadequately pleaded and the plaintiffs were granted leave to file an amended complaint. Plaintiffs did so, and defendants again moved to dismiss it on several grounds. On May 10, 1996, the Court granted the motion to dismiss, finding that

plaintiff had failed to plead violations of the RICO statute, which was the predicate for federal court violation. The Court accordingly dismissed the complaint in its entirety, refusing to assume jurisdiction over the remaining state court claims. On May 31, 1996, plaintiffs commenced an action in the Supreme Court of the State of New York, Nassau County alleging violations of the common law and state franchise laws. On February 5, 1997, the Court dismissed the common law fraud cause of action but denied the cause of action for violation of state franchise laws. The Company has filed an answer asserting various counterclaims against the plaintiffs and otherwise has filed a notice of appeal from so much of the order which denied its motion to dismiss the cause of action for violation of state franchise law.

The Company has been named as one of several "generator defendants" in an action brought by CSX Transportation, Inc. ("CSX") and Staten Island - Arlington, Inc. ("Arlington") in the Supreme Court of the State of New York, County of New York. According to the complaint, CSX, through its wholly owned subsidiary, Arlington, owned certain property in Staten Island (the "Arlington Yard") which, according to the complaint, during the period May 15, 1988 through September 14, 1988 was the site of illegal solid waste dumping activity allegedly orchestrated by certain defendants convicted of such activity in *United States v. Paccione, et al* (the "Paccione Defendants"). Pursuant to an Order on Consent into which CSX alleges it entered with the NYS Dept. of Environmental Conservation ("DEC"), CSX undertook to remediate the site and to reimburse the DEC for amounts expended in connection with a preliminary investigation of the site. CSX is now suing several "transporter defendants" (i.e., those who allegedly had wastes generated by them transported to Arlington Yard), for damages and injunctive relief based upon various theories of law, including private and public nuisance, restitution, equitable indemnity and trespass. The Company has filed an answer in which it denied any involvement with the site and perforce any liability to the plaintiffs under the Common law theories advanced, asserted affirmatively several legal and equitable defenses to liability in these circumstances, and alternatively, interposed cross claims for contribution against other defendants.

In or about December, 1996, Nathan's Famous Systems, Inc. ("Systems") instituted an action in the Supreme Court of New York, Nassau County, against Phylli Foods, Inc. ("Foods") a franchisee, and Calvin Danzig as a guarantor of Foods' payment and performance obligations, to recover royalty fees and advertising contributions due to Systems in the aggregate amount of \$35 under a franchise agreement between Systems and Foods dated June 1, 1994. In their answer, the defendants essentially denied the material allegations of the complaint and interposed counterclaims against Systems in which they alleged essentially that Systems fraudulently induced the defendants to purchase the franchise from Systems or did so by means of negligent misrepresentations. Defendants also alleged that reason of Systems' allegedly fraudulent and deceitful conduct, Systems violated the General Business Law of New York. As a consequence of the foregoing, the defendants are seeking damages in excess of \$5,000, as well as statutory relief under the General Business Law. Systems has moved to dismiss the counterclaims on the grounds that they are insufficiently pleaded and otherwise fail to state a sustainable claim against Systems upon which relief may be granted.

In or about December, 1996, the Company instituted an action in the Civil Court of the City of New York, Bronx County, against Bay Plaza Famous, Inc. ("Bay Plaza"), as franchisee, and Daniel Rapoport ("Rapoport") and Theodore Wenacur as guarantors of Bay Plaza's payment and performance obligations, to recover royalty fees and advertising contributions due to the Company in the aggregate amount of \$24 under a franchise agreement between Bay Plaza and the Company dated November 20, 1989. In their answer, Bay Plaza and Rapoport essentially denied the material allegations of the complaint and interposed counterclaims against the Company in which they alleged essentially that the Company fraudulently induced the defendants to purchase the franchise from the Company or did so by means of negligent misrepresentations. Bay Plaza and Rapoport also alleged that by reason of the Company's allegedly fraudulent and deceitful conduct, the Company violated the General Business Law of New York. As a consequence of the foregoing, the defendants are seeking damages in excess of

\$5,500, as well as statutory relief under the General Business Law. The Company has moved to dismiss the counterclaims on the grounds that they are insufficiently pleaded and otherwise fail to state a sustainable claim against the Company upon which relief may be granted.

The Company was named as one of three defendants in an action recently commenced in the Supreme Court of New York, Queens County. According to the complaint, the plaintiff, a dentist, is seeking 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 claims that the landlord fraudulently induced him to enter into a lease extension by representing that the first floor of the building would be occupied by a non-food establishment.

The Company believes that there is no merit to the plaintiff's claims against it inasmuch as it never was a party to the lease, and the restaurant, which closed in or about August 1995, was operated by a franchisee exclusively. Accordingly, the Company intends to move to dismiss the complaint and otherwise intends to defend the action vigorously.

The Company is involved in various other litigation in the normal course of business, none of which, in the opinion of management, will have a significant adverse impact on its financial position or results of operations.

12. FOURTH QUARTER ADJUSTMENTS:

The fourth quarter of fiscal 1996 included adjustments of (i) \$3,907 relating to the Company's decision to early adopt SFAS No. 121; (ii) \$690 for certain other store closure costs; (iii) \$500 of additional reserve relating to outstanding litigation against the Company; (iv) \$380 of accrued rental expenses resulting from the default of a sub-lessee for space which is not expected to be utilized by the Company; and (v) \$324 of severance and related costs.

The fourth quarter of fiscal 1995 included adjustments of (i) approximately \$400 relating to an increased contribution by the Company to its advertising fund; (ii) approximately \$300 of professional fees associated with the completion of the audit by the IRS of the Company's income tax returns; (iii) approximately \$200 addition bad debt expense; (iv) \$500 of charges relating to costs associated with outstanding litigation against the Company, which have been recorded as other expense in the 1995 consolidated statement of operations and; (v) an income tax benefit of \$200 relating to the reversal of prior year's over accruals.

10.24	Warrant Agreement
21	Subsidiaries of the Registrant
24.1	Consent of KPMG Peat Marwick
24.2	Consent of Arthur Anderson LLP
27	Financial Data Schedule

These securities may not be publicly offered or sold unless at the time of such offer or sale, the person making such offer of sale delivers a prospectus meeting the requirements of the Securities Act of 1933 forming a part of a registration statement, or post-effective amendment thereto, which is effective under said act, or unless in the opinion of counsel to the Corporation, such offer and sale is exempt from the provisions of Section 5 of said Act.

W A R R A N T

For the Purchase of Common Stock, Par Value \$.01 per Share of

NATHAN'S FAMOUS, INC.

(Incorporated under the Laws of the State of Delaware)

VOID AFTER 5 P.M. NOVEMBER 24, 2001

No. 1

Warrant to Purchase
50,000 Shares

THIS IS TO CERTIFY that, for value received, JERRY KREVANS is entitled, subject to the terms and conditions set forth, at or before 5 P.M., New York City Time, on November 24, 2001, but not thereafter, to purchase the number of shares set forth above of Common Stock, par value \$.01 per share (the "Common Stock"), of NATHAN'S FAMOUS, INC., a Delaware corporation (the "Corporation"), from the Corporation at a purchase price per share of \$3.94 if and to the extent this Warrant is exercised, in whole or in part, during the period this Warrant remains in force, subject in all cases to adjustment as provided in Section 3 hereof, and to receive a certificate or certificates representing the shares of Common Stock so purchased, upon presentation and surrender to the Corporation of this Warrant, with the form of subscription attached hereto duly executed, and accompanied by payment of the purchase price of each share purchased either in cash or by certified or bank cashier's check payable to the order of the Corporation.

1. The rights represented by this Warrant are exercisable at the option of the holder hereof in whole at any time, or in part from time to time, within the period above specified at the price specified on page 1 hereof, provided that the Warrant shall be vested as follows: 16,666 on the date hereof, 16,667 on November 25, 1997, 16,667 on November 25, 1998.

2. The Corporation covenants and agrees that all shares may be delivered upon the exercise of this Warrant and will, upon delivery, be fully paid and non-assessable, and, without limiting the generality of the foregoing, the Corporation covenants and agrees that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the then current Warrant purchase price per share of the Common Stock issuable upon exercise of this Warrant.

3. The rights represented by this Warrant are exercisable at the option of the holder hereof in whole at any time, or in part from time to time, within the period above specified at the prices specified in Section 1 hereof. In case of the purchase of less than all the shares as to which this Warrant is exercisable, the Corporation shall cancel this Warrant upon the surrender hereof and shall execute and deliver a new Warrant of like tenor for the balance of the shares purchasable hereunder.

4. The price per share at which shares of Common Stock may be purchased hereunder, and the number of such shares to be purchased upon exercise hereof, are subject to change or adjustment as follows:

(A) In case the Corporation shall, while this Warrant remains unexercised, in whole or in part, and in force, effect a recapitalization of such character that the shares of Common Stock purchasable hereunder shall be changed into or become exchangeable for a larger or smaller number of shares, then, after the date of record for effecting such recapitalization, the number of shares of Common Stock which the holder hereof shall be entitled to purchase hereunder shall be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of Common Stock by reason of such recapitalization, and the purchase price hereunder per share of such recapitalized Common Stock shall, in the case of an increase in the number of such shares, be proportionately reduced, and in the case of a decrease in the number of such shares, shall be proportionately increased. For the purpose of this subsection (A), a stock dividend, stock split-up or reverse split shall be considered as a recapitalization and as an exchange for a larger or smaller number of shares, as the case may be.

(B) In the case of any consolidation of the Corporation with, or merger of the Corporation into, any other corporation, or in case of any sale or conveyance of all or substantially all of the assets of the Corporation in connection with a plan of complete liquidation of the Corporation, then, as a condition of such consolidation, merger or sale or conveyance, adequate provision shall be made whereby the holder

hereof shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock or securities as may be issued in connection with such consolidation, merger or sale or conveyance with respect to or in exchange for the number of outstanding shares of Common Stock immediately therefore purchasable and receivable upon the exercise of the rights represented hereby had such consolidation, merger or sale or conveyance not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof shall be applicable as nearly as may be in relation to any shares of stock or securities thereafter deliverable upon the exercise hereof.

(C) In case the Corporation shall, while this Warrant remains unexercised, in whole or in part, and in force, issue (otherwise than by stock dividend or stock split-up or reverse split) or sell shares of its Common Stock (hereinafter referred to as "Additional Shares") for a consideration per share (before deduction of expenses or commissions or underwriting discounts or allowances in connection therewith) less than the purchase price hereunder per share, then, after the date of such issuance or sale, the purchase price hereunder per share shall be reduced to a price determined by dividing (1) an amount equal to (a) the total number of shares of Common Stock outstanding immediately prior to the time of such issuance or sale multiplied by such purchase price hereunder per share, plus (b) the consideration (before deduction of expenses or commissions or underwriting discounts or allowances in connection therewith), if any, received by the Corporation upon such issuance or sale, by (2) the total number of shares of Common Stock outstanding after the date of the issuance or sale of such Additional Shares, and the number of shares of Common Stock which the holder hereof shall be entitled to purchase hereunder at each such adjusted purchase price per share, at the time such adjusted purchase price per share shall be in effect, shall be the number of whole shares of Common Stock obtained by multiplying such purchase price hereunder per share before such adjustment, by the number of shares of Common Stock purchasable upon the exercise of this Warrant immediately before such adjustment, and dividing the product so obtained by such adjusted purchase price per share; provided, however, that no such adjustment of the purchase price hereunder per share or the number of shares for which this Warrant may be exercised shall be made upon the issuance or sale by the Corporation of Additional Shares reserved for issuance upon exercise of outstanding Stock Options.

(D) In case the Corporation shall, while this Warrant remains unexercised in whole or in part, and in force, issue or grant any rights to subscribe for or to purchase, or any option (other than the employee stock options referred to in subsection (C) above) for the purchase of (i) Common Stock or (ii) any indebtedness or shares of stock convertible into or exchangeable for Common Stock (indebtedness

or shares of stock convertible into or exchangeable for Common Stock being hereinafter referred to as "Convertible Securities"), or issue or sell Convertible Securities and the price per share for which Common Stock is issuable upon the exercise of such rights or options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable (determined by dividing (1) in the case of an issuance or grant of any such rights or options, the total amount, if any, received or receivable by the Corporation as consideration for the issuance or grant of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon exercise of such rights or options, plus, in the case of such Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable, or (2) in the case of an issuance or sale of Convertible Securities other than where the same or issuable upon the exercise of any such rights or options, the total amount, if any, received or receivable by the Corporation as consideration for the issuance or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable, by, in either such case, (3) the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable) shall be less than the two purchase prices hereunder per share, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable, shall (as of the date of the issuance or grant of such rights or options or, in the case of the issuance or sale of Convertible Securities other than where the same are issuable upon the exercise of rights or options, as of the date of such issuance or sale) be deemed to be outstanding and to have been issued for said price per share; provided that (i) no further adjustment of the purchase price shall be made upon the actual issuance of such Common Stock upon the exercise of such rights or options or upon the conversion or exchange of such Convertible Securities or upon the actual issuance of Convertible Securities where the same are issuable upon the exercise of such rights or options, and (ii) rights or options issued or granted pro rata to shareholders without consideration and Convertible Securities issuable by way of dividend or other distribution to shareholders shall be deemed to have been issued or granted at the close of business on the date fixed for the determination of shareholders entitled to such rights, options or Convertible Securities and shall be deemed to have been issued without consideration; and (iii) if, in any case, the total maximum number of shares of Common Stock issued upon exercise of such rights or options or upon conversion or exchange of such Convertible Securities is not, in fact, issued and the right to exercise

such right or option or to convert or exchange such Convertible Securities shall have expired or terminated, then, and in any such event, the purchase price, as adjusted, shall be appropriately readjusted at the time of such expiration or termination. In such case, each purchase price hereunder per share which is greater than the price per share for which Common Stock is issuable upon conversion or exchange of such rights or options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable, as determined above in this subsection (D), shall thereupon be reduced to a price determined by dividing (1) an amount equal to (a) the total number of shares of Common Stock outstanding immediately prior to the time of the issuance or grant of such rights or options or the issuance or sale of such Convertible Securities multiplied by such purchase price hereunder per share, plus (b) the total amount, if any, received or receivable by the Corporation as consideration for such issuance or grant or such issuance or sale, plus the additional amounts referred to and more fully set forth in clauses (1) and (2) of the parenthetical material above in this subsection (D), whichever clause and whichever additional amounts may be applicable, by (2) the total number of shares of Common Stock outstanding after the date of such issuance or grant or such issuance or sale, and the number of shares of Common Stock which the holder hereof shall be entitled to purchase hereunder at such adjusted purchase price per share, at the time such adjusted purchase price per share shall be in effect, shall be the number of whole shares of Common Stock obtained by multiplying such purchase price hereunder, per share, before such adjustment, by the number of shares of Common Stock purchasable upon the exercise of this Warrant immediately before such adjustment and dividing the product so obtained by such adjusted purchase price per share.

(E) For the purpose of subsections (C) and (D) above, in case the Corporation shall issue or sell Additional Shares, issue or grant any rights to subscribe for or to purchase, or any options for the purchase of (i) Common Stock or (ii) Convertible Securities, or issue or sell Convertible Securities for a consideration part of which shall be other than cash, the amount of the consideration received by the Corporation therefor shall be deemed to be the cash proceeds, if any, received by the Corporation plus the fair value of the consideration other than cash as determined by the Board of Directors of the Corporation in good faith, before deduction of commissions, underwriting discounts or allowances or other expenses paid or incurred by the Corporation for any underwriting of, or otherwise in connection with, such issuance, grant or sale.

(F) Subject to the provisions of subsection (G) below, in case the Corporation shall, while this Warrant remains unexercised, in whole or in part, and in force, make any distribution of its assets to holders of Common Stock as a partial liquidating dividend, by way of return of capital or otherwise, then, after the date of record for determining shareholders entitled to such distribution, the holder hereof shall be entitled, upon exercise of this Warrant and purchase of any or all of the shares

of Common Stock subject hereto, to receive the amount of such assets (or at the option of the Corporation, a sum equal to the value thereof at the time of such distribution to holders of Common Stock as such value is determined by the Board of Directors of the Corporation in good faith) which would have been payable to such holder had he been the holder of record of such shares of Common Stock on the record date for the determination of shareholders entitled to such distribution.

(G) Except as otherwise provided in subsection (B) above, in the case of any sales or conveyance of all or substantially all of the assets of the Corporation in connection with a plan of complete liquidation of the Corporation, in the case of the dissolution, liquidation or winding up of the Corporation, all rights under this Warrant shall terminate on a date fixed by the Corporation, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the registered holder hereof, as the same shall appear on the books of the Corporation, at least thirty (30) days prior to such termination date.

(H) In case the Corporation shall, while this Warrant remains unexercised in whole or in part, and in force, offer to the holders of Common Stock any rights to subscribe for additional shares of stock of the Corporation, then the Corporation shall give written notice thereof to the registered holder hereof not less than thirty (30) days prior to the date on which the books of the Corporation are closed or a record date fixed for the determination of shareholders entitled to such subscription rights. Such notice shall specify the date as to which the books shall be closed or the record date fixed with respect to such offer or subscription, and the right of the holder hereof to participate in such offer or subscription shall terminate if this Warrant shall not be exercised on or before the date of such closing of the books or such record date.

(I) Any adjustment pursuant to the foregoing provisions shall be made on the basis of the number of shares of Common Stock which the holder hereof would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the purchase price hereunder per share, whether or not in effect immediately prior to the time of such adjustment, on the basis of such purchase price immediately prior to the event giving rise to such adjustment. Whenever any such adjustment is required to be made, the Corporation shall forthwith determine the new number of shares of Common Stock which the holder shall be entitled to purchase hereunder and/or such new purchase price per share, and shall prepare, retain on file and transmit to the holder hereof within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment(s).

(J) For the purposes of this Section 3, the term "Common Stock" shall

include all shares of capital stock authorized by the Corporation's Certificate of Incorporation, as from time to time amended, which are not limited to a fixed sum or percentage of par value in respect of the right of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation.

(K) Whenever the price per share hereunder, initial or adjusted, and the number of shares of Common Stock to be purchased upon exercise hereof, initial or adjusted, shall be changed or adjusted pursuant to the provisions of this Section 3, the Corporation shall forthwith cause written notice setting forth the changed or adjusted price per share hereunder and number of shares to be purchased upon exercise hereof to be given to the holder of this Warrant.

5. (A) The Corporation agrees that at any time the Corporation contemplates filing under and in accordance with the Securities Act of 1933, as amended, (the "Act"), a new Registration Statement, it shall notify the holder hereof in writing at least thirty (30) days prior to the filing of such new Registration Statement of its intention to do so, and in such case, the holder hereof shall have the right, upon written notice delivered to the Corporation within twenty (20) days after receipt of notice from the Corporation, to require that such Warrants and the shares of Common Stock into which the Warrants are exercisable be included in such new Registration Statement. In the event that the holder hereof elects to so include such Warrants or such shares of Common Stock, the Corporation shall pay all of the expenses of preparation and filing of such new Registration Statement, including legal, accounting, printing, blue sky and other fees and expenses.

(B) If the holder elects to include the Warrants or shares of Common Stock in the Registration Statement, the Corporation's obligation to do so shall be subject to the following further conditions:

(i) If the managing underwriter advises that either the Warrants or shares of Common Stock otherwise to be included in the offering by the timely election of the holder cannot be included in whole or in part in such offering for whatever reason, then, as the case may be, the Warrants or shares of Common Stock shall not be included in the offering or the amount thereof included in the offering shall be reduced in accordance with the advice of the underwriters.

(ii) The Corporation may in its discretion withdraw any Registration Statement filed without liability to the holder hereof.

(C) The holder hereof agrees that the Warrants and shares of Common Stock will not be offered or sold (1) unless at the time of such offer or sale, there is

delivered a prospectus meeting the requirements of the Act, as amended, forming a part of a new Registration Statement with respect to such offer and sale, or (2) unless in the opinion of counsel to the Corporation satisfactory to the holder hereof, such offer and sale is exempt from the provisions of Section 5 of the Act. In connection with the preparation of any new Registration Statement, the holder hereof agrees to furnish the Corporation with information, in writing, concerning the terms of the proposed offer.

6. The Corporation agrees at all times to reserve or hold available a sufficient number of shares of Common Stock to cover the number of shares issuable upon the exercise of this and all other Warrants of the same class.

7. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Corporation, or to any other rights whatsoever except the rights herein expressed, and no dividends shall be payable or accrue in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until or unless, and except to the extent that, this Warrant shall be exercised.

8. This Warrant is exchangeable upon the surrender hereof by the holder hereof to the Corporation for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by the holder hereof at the time of such surrender.

9. The Corporation will transmit to the holder of this Warrant such information, documents and reports as are generally distributed to shareholders of the Corporation concurrently with the distribution thereof to such shareholders.

10. Notices to be given to the holder of this Warrant shall be deemed to have been sufficiently given if delivered or mailed, addressed in the name and at the address of such holder appearing in the records of the Corporation, and if mailed, sent first class registered or certified mail, postage prepaid. The address of the Corporation is 1400 Old Country Road, Westbury, New York 11590, and the Corporation shall give written notice of any change of address to the holder hereof.

IN WITNESS WHEREOF, the Corporation has caused this Warrant to be executed by the signature of its President and its seal affixed and attested by its Secretary.

Dated: Nov. 25, 1996

NATHAN'S FAMOUS, INC.

By: /s/ Wayne Norbitz

WAYNE NORBITZ
President

[Corporate Seal]

ATTEST:

/s/ Ronald DeVos

Ronald DeVos, Secretary

ASSIGNMENT

TO BE EXECUTED BY THE HOLDER
IF HE DESIRES TO ASSIGN THE
WARRANT IN ITS ENTIRETY

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers
unto _____

(Please insert Social Security or
other identifying number of
Assignee)

the right to purchase _____ shares of Common Stock of the within named
Company evidenced by the within Warrant, together with all right, title and
interest therein, and does hereby irrevocably constitute and appoint

_____ attorney to transfer the said Warrant on the books of said Company, with full
power of substitution in the premises.

Dated: _____, 19__

(Signature)

NOTE: The signature to this
Assignment must correspond with the
name as written upon the face of
this Warrant in every particular,
without alteration or enlargement
or any change whatever.

SIGNATURE GUARANTEED:

SUBSCRIPTION FORM

To Be Executed By The Holder
If He Desires To Exercise The
Warrant In Whole Or In Part

TO: NATHAN'S FAMOUS, INC.

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant for, and to purchaser thereunder, _____ shares of the stock provided for therein and tenders payment herewith to the order of NATHAN'S FAMOUS, INC. in the amount of \$_____ (such payment being in cash or by certified or official bank or bank cashier's check) in accordance with the terms of the within Warrant. The undersigned requests that certificates for such shares be issued in the name of

(Name) (Social Security or other identifying number of Subscriber)

(Address)

and to be delivered to _____
(Name)

(Address)

and, if said number of shares shall not be all the shares purchasable hereunder, that a new Warrant for the balance remaining of the shares purchasable under the within Warrant be registered in the name of, and delivered to, the undersigned at the address stated below.

(Address)

Dated: _____ 19__

(Signature)
NOTE: The signature to this Subscription must correspond with the name as written upon the face of this Warrant in every particular, without alteration or enlargement or any change whatever.

LIST OF SUBSIDIARIES

Name -----	State of Incorporation -----
Nathan's Famous Operating Corp.	Delaware
Nathan's Famous Services, Inc.	Delaware
Nathan's Famous Systems, Inc.	Delaware
Nathan's Famous Forest Ave., Inc.	New York
Nathan's Famous of Farmingdale, Inc.	New York
Nathan's Famous of Kings Plaza, Inc.	New York
Nathan's Famous of 325 Fifth Avenue, Inc.	New York
Nathan's Famous of Yonkers, Inc.	Delaware
Nathan's Famous of New Jersey, Inc.	New Jersey
Nathan's Famous of Illinois, Inc.	Illinois
Nathan's Famous of California, Inc.	California
Nathan's Famous of Florida, Inc.	Florida
Nathan's Famous of Pennsylvania, Inc.	Pennsylvania
Nathan's Famous of Hicksville, Inc.	New York
Nathan's Famous of Milford, Inc.	Connecticut
Nathan's Famous of Mamaroneck, Inc.	New York
Nathan's of Suffolk County, Inc.	Delaware
Nathan's Famous of Lynbrook, Inc.	Delaware
Nathan's Famous of Times Square, Inc.	New York
Nathan's Famous of H.D., Inc.	Delaware
Nathan's Roadside Rest, Inc.	New York
Namasil Realty Corp.	New York
Denek of Hicksville, Inc.	New York
Frankorama Industries, Inc.	Delaware
Nathan's Famous of Crossgates, Inc.	New York

The Board of Directors
Nathan's Famous, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-72066, 33-89442 and 33-93396) on Form S-8 of Nathan's Famous, Inc. of our report dated May 16, 1995, relating to the consolidated statements of operations, stockholders' equity and cash flows of Nathan's Famous, Inc. and subsidiaries for the year ended March 26, 1995, and the related schedule, which report appears in the March 30, 1997, annual report on Form 10-K of Nathan's Famous, Inc.

KPMG PEAT MARWICK LLP

Jericho, New York
June 24, 1997

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement Files Nos. 33-72066, 33-89442 and 33-93396.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
June 24, 1997

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1,000

3-MOS	12-MOS	3-MOS	12-MOS
MAR-30-1997	MAR-30-1997	MAR-30-1997	MAR-30-1997
DEC-30-1996		APR-01-1996	
MAR-30-1997		MAR-30-1997	
	0		647
0		7,640	
0		1,620	
0		581	
0		213	
0		10,456	12,046
0	0	6,566	
0		27,794	
0		5,654	
0	0	0	0
0	0	0	0
0	0	0	47
0	0	21,929	
0	27,794		
0	4,684	21,718	
5,642		26,575	
	3,029		13,031
1,873		8,021	
1,159		4,067	
(15)		30	
1		16	
(405)		1,410	
(132)		622	
(273)		788	
0		0	
0		0	
0	0		0
(273)		788	
(0.06)		0.17	
0.00		0.00	