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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarter ended March 30, 2008

Commission file number 333-142081

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**SBARRO, INC.**

(Exact name of registrant as specified in its charter)

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**NEW YORK**

(State or other jurisdiction of incorporation or organization)

**11-2501939**

(I.R.S. Employer Identification No.)

**401 Broad Hollow Road, Melville, New York**

(Address of principal executive offices)

**11747-4714**

(Zip Code)

**Registrant's telephone number, including area code: (631) 715-4100**

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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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares of Common Stock of the registrant outstanding as of May 12, 2008 was 100.

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**SBARRO, INC.**  
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**Part I – Financial Information**  
**Item 1. Consolidated Financial Statements**

**SBARRO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**  
**(Unaudited)**  
**(In thousands)**

	<u>March 30, 2008</u>	<u>December 30, 2007</u>
	SUCCESSOR	SUCCESSOR
Current assets:		
Cash and cash equivalents	\$ 13,444	\$ 28,867
Receivables, net of allowance for doubtful accounts of \$55 at March 30, 2008:		
Franchise	3,653	2,938
Other	4,023	4,552
	<u>7,676</u>	<u>7,490</u>
Inventories	2,909	3,056
Prepaid expenses	2,419	3,480
Deferred tax asset	4,315	2,331
Total current assets	<u>30,763</u>	<u>45,224</u>
Property and equipment, net	65,598	65,343
Intangible assets:		
Goodwill	211,236	211,236
Trademarks	248,000	248,000
Other intangible assets	31,632	31,996
Deferred financing costs, net	9,794	10,069
Deferred tax asset	23,903	23,850
Other assets	1,186	1,053
Total assets	<u>\$ 622,112</u>	<u>\$ 636,771</u>

See notes to unaudited consolidated financial statements.

**SBARRO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIT)**  
(Unaudited)  
(In thousands except shareholders)  
(CONTINUED)

	<u>March 30, 2008</u>	<u>December 30, 2007</u>
	SUCCESSOR	SUCCESSOR
<b>Current liabilities:</b>		
Accounts payable	\$ 6,391	\$ 8,586
Accrued expenses	19,527	23,685
Accrued interest payable	3,851	7,745
Due to former shareholders	6,200	6,200
Taxes payable on behalf of former shareholders	572	2,072
Current portion of debt	<u>1,830</u>	<u>1,830</u>
Total current liabilities	38,371	50,118
Deferred rent	3,842	3,587
Deferred tax liability	107,250	107,130
Due to former shareholders & other liabilities	9,973	10,052
Long-term debt	329,798	330,255
<b>Commitments and contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock		
Authorized 1,000 shares; \$.01 par value issued and outstanding 100 shares at March 30, 2008 and December 30, 2007	—	—
Additional paid-in capital	133,000	133,000
(Accumulated deficit) retained earnings	<u>(122)</u>	<u>2,629</u>
Total shareholders' equity	132,878	135,629
Total liabilities and shareholders' equity	<u>\$ 622,112</u>	<u>\$ 636,771</u>

See notes to unaudited consolidated financial statements.

**SBARRO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In thousands)

	For the three months ended March 30, 2008 SUCCESSOR	For the period January 31 through April 1, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR
<b>Revenues:</b>			
Restaurant sales	\$ 79,753	\$ 53,092	\$ 23,594
Franchise related income	3,485	2,477	993
Real estate	—	—	323
Total revenues	<u>83,238</u>	<u>55,569</u>	<u>24,910</u>
<b>Costs and expenses:</b>			
Cost of food and paper products	17,382	10,697	4,308
Payroll and other employee benefits	22,313	14,973	6,762
Other operating costs	30,009	18,999	8,839
Other income, net	(1,219)	(425)	(497)
Depreciation and amortization	4,118	2,916	1,272
General and administrative	7,235	4,423	2,843
Special event bonuses	—	—	31,395
Asset impairment, restaurant closings/remodels	167	83	74
Total costs and expenses, net	<u>80,005</u>	<u>51,666</u>	<u>54,996</u>
Operating income (loss)	<u>3,233</u>	<u>3,903</u>	<u>(30,086)</u>
<b>Other (expense) income:</b>			
Interest expense	(7,736)	(5,304)	(2,570)
Interest income	73	332	108
Equity in net (loss) income of unconsolidated affiliates	(150)	—	12
Net other expense	<u>(7,813)</u>	<u>(4,972)</u>	<u>(2,450)</u>
Loss before income taxes	<u>(4,580)</u>	<u>(1,069)</u>	<u>(32,536)</u>
Income tax (benefit) expense	<u>(1,829)</u>	<u>(440)</u>	<u>44</u>
Net loss	<u>\$ (2,751)</u>	<u>\$ (629)</u>	<u>\$ (32,580)</u>

See notes to unaudited consolidated financial statements.

**SBARRO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	For the three months ended March 30, 2008 SUCCESSOR	For the period January 31 through April 1, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR
<b>Operating Activities:</b>			
Net loss	\$ (2,751)	\$ (629)	\$ (32,580)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,118	2,916	1,272
Amortization of deferred financing costs	275	143	80
Amortization of senior note	—	98	32
Increase (decrease) in deferred rent, net of tenant allowance	252	220	(117)
Asset impairment and restaurant closings/remodels	167	83	74
Change in deferred tax benefit	(1,917)	(578)	—
Equity in net loss (income) of unconsolidated affiliates	150	—	(12)
Changes in operating assets and liabilities, net of effects of merger:			
(Increase) decrease in receivables	(151)	1,389	394
Decrease in inventories	148	134	319
Decrease (increase) in prepaid expenses	1,061	1,199	(1,434)
(Increase) decrease in other assets	(25)	(138)	871
(Decrease) increase in accounts payable, accrued expenses & other liabilities	(8,090)	5,600	23,474
(Decrease) increase in accrued interest payable	(3,894)	3,930	2,337
Net cash (used in) provided by operating activities	<u>(10,657)</u>	<u>14,367</u>	<u>(5,290)</u>

(Continued)

**SBARRO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)  
(CONTINUED)

	For the three months ended March 30, 2008 <u>SUCCESSOR</u>	For the period January 31 through April 1, 2007 <u>SUCCESSOR</u>	For the period January 1 through January 30, 2007 <u>PREDECESSOR</u>
<b>Investing Activities:</b>			
Purchases of property and equipment	(3,623)	(3,040)	(1,691)
Purchase of other locations	(425)	—	—
Investment in joint ventures	(260)	—	—
Cash paid for merger, net of cash acquired	—	(177,000)	—
Net cash used in investing activities	<u>(4,308)</u>	<u>(180,040)</u>	<u>(1,691)</u>
<b>Financing Activities:</b>			
Proceeds from shareholders for issuance of common stock	—	133,000	—
Proceeds from secured term loan	—	183,000	—
Proceeds from senior notes	—	150,000	—
Paydown of Predecessor's notes	—	(267,000)	—
Debt issue costs	—	(11,000)	—
Repayment of secured term loan	(458)	—	—
Mortgage principal repayments	—	—	(17)
Dividends to sellers	—	—	(76,159)
Repayment of loans by officers	—	—	5,530
Net cash (used in) provided by financing activities	<u>(458)</u>	<u>188,000</u>	<u>(70,646)</u>
(Decrease) increase in cash and cash equivalents	(15,423)	22,327	(77,627)
Cash and cash equivalents at beginning of period	28,867	—	88,627
Cash and cash equivalents at end of period	<u>\$ 13,444</u>	<u>\$ 22,327</u>	<u>\$ 11,000</u>

**Supplemental non-cash investing activities:**

On January 30, 2007, the Company transferred its interest of \$5.6 million of certain non-core assets to a newly-formed company owned by certain of our former shareholders as a dividend.

**SBARRO INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

**1. Basis of financial statement presentation:**

On January 31, 2007, entities controlled by MidOcean Partners III, LP, a private equity firm, and certain of its affiliates (“MidOcean”) acquired the Company, pursuant to an agreement and plan of merger (“Merger Agreement”). MidOcean SBR Acquisition Corp., a wholly-owned subsidiary of Sbarro Holdings, LLC, merged with and into the Company (the “Merger”), with the Company surviving the Merger. Sbarro Holdings, LLC is a wholly-owned subsidiary of MidOcean SBR Holdings, LLC (“Holdings”). Sbarro Holdings, LLC owns 100% of our outstanding common stock and Holdings owns 100% of the limited liability company interests of Sbarro Holdings, LLC.

MidOcean owns approximately 74% of Holdings and thus acquired control of the Company in the Merger. Certain of our senior managers acquired approximately 5% of the outstanding equity of Holdings in connection with the Merger, with the balance of the equity of Holdings being owned by other investors.

As a result of the Merger, we are required to present our results for the first quarter of 2007 as two separate periods. Our Predecessor financial period refers to the period from January 1 through January 30, 2007 prior to consummation of the Merger. Our Successor financial period refers to the period from January 31 through April 1, 2007 following consummation of the Merger.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Regulation S-X related to interim period financial statements and, therefore, do not include all information and footnotes required by generally accepted accounting principles. However, in the opinion of our management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the consolidated financial position of Sbarro and our subsidiaries at March 30, 2008 (Successor) and our consolidated results of operations and cash flows for the three months ended March 30, 2008 (Successor) and the period January 31, 2007 through April 1, 2007 (Successor) and the period January 1, 2007 through January 30, 2007 (Predecessor) have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the entire year. Reference should be made to our annual financial statements, including footnotes thereto, included in our Annual Report on Form 10-K for the year ended December 30, 2007.

Certain reclassifications have been made to the prior year’s financial statements to conform to the current presentation.

**2. Recent Accounting Pronouncements:**

**SFAS 157:**

In September 2006, FASB issued Statement SFAS No. 157, “Fair Value Measurements”. This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued a final Staff Position to allow a one-year deferral of adoption of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB amended SFAS No. 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. We elected to defer adoption of SFAS No. 157 for non-financial assets and non-financial liabilities and we do not currently anticipate that full adoption in 2009 will materially impact our consolidated financial statements. We evaluated SFAS No. 157 and determined that the adoption of the provisions effective December 31, 2007 did not have a material effect on our consolidated financial statements.

**SFAS 159:**

On December 31, 2007, we adopted FASB Statement SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (“SFAS No. 159”), which is effective for fiscal years beginning after November 15, 2007. Under SFAS No. 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. We evaluated SFAS No. 159 and do not have any items eligible for the fair value accounting option of; therefore, the adoption of SFAS No. 159 had no impact on our consolidated financial statements.

**SBARRO INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Continued)**

**SFAS 141 (R):**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141(R)"), which is effective for annual periods beginning on or after December 15, 2008. In FAS 141(R), the FASB retained the fundamental requirements of Statement No. 141 to account for all business combinations using the acquisition method (formerly the purchase method) and for an acquiring entity to be identified in all business combinations. However, the new standard requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date for value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The Company will apply the provisions of this statement prospectively to business combinations for which the acquisition date is on or after December 29, 2008 and is currently assessing the impact of adoption of SFAS No. 141(R) on its consolidated financial statements.

**SFAS 160:**

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51," which is effective for fiscal years beginning on or after December 15, 2008. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires that companies provide sufficient disclosures to clearly identify and distinguish between the interest of the parent company and the interest of the noncontrolling interest holder. We have not yet determined the impact, if any, that SFAS No. 160 will have on our consolidated financial statements.

**SFAS 161:**

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not currently use derivative instruments and therefore SFAS No. 161 will not have an effect on our consolidated financial statements.

**3. Long Term Debt:**

**Indenture:**

In connection with the Merger, we issued \$150.0 million of senior notes at 10.375% due 2015 ("Senior Notes"). The interest is payable on February 1 and August 1 of each year.

The Senior Notes are senior unsecured obligations of ours and are guaranteed by all of our current and future domestic subsidiaries and rank equally in right of payment with all existing and future senior indebtedness of ours. The Senior Notes are effectively subordinated to all secured indebtedness of ours to the extent of the collateral securing such indebtedness, including the Senior Credit Facilities. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. The Senior Notes are structurally subordinated to all existing and future indebtedness, claims of holders of preferred stock and other liabilities of our subsidiaries that do not guarantee the Senior Notes. In the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims in full from the assets of those subsidiaries before any assets are made available for distribution to us. The Senior Notes are senior in right of payment to any future subordinated obligations of ours.

The indenture governing the notes contains certain events of default and restrictive covenants which are customary with respect to non-investment grade debt securities, including limitations on the incurrence of additional indebtedness, dividends, repurchases of capital stock, sales of assets, liens, mergers and transactions with affiliates.

**SBARRO INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Continued)**

**Senior Credit Facilities:**

In connection with the Merger, we entered into new senior secured credit facilities. The senior secured credit facilities provided for loans of \$208.0 million under a \$183.0 million senior secured term loan facility and a \$25.0 million senior secured revolving facility (the "Senior Credit Facilities") The revolving facility also provides for the issuance of letters of credit not to exceed \$10.0 million at any one time outstanding and swing line loans not to exceed \$5.0 million at any one time outstanding. In addition, the Senior Credit Facilities provide for an uncommitted incremental facility of up to \$50.0 million. In connection with the Merger, we borrowed the entire \$183.0 million available under the term loan facility. The term loan facility (the "Term Loan") will mature in 2014 and the revolving credit facility is scheduled to terminate and come due in 2013.

In general, borrowings under the Senior Credit Facilities bear interest based, at our option, at either the Eurodollar rate or an alternate base rate ("ABR"), in each case plus a margin. The applicable margin will be based on our total leverage ratio (as defined in the credit agreement governing the Senior Credit Facilities) at the time of determination. Our rate of interest for borrowings under the Senior Credit Facilities is LIBOR plus 2.50% or ABR plus 1.50%. In addition to paying interest on outstanding principal under the Senior Credit Facilities, we are required to pay an unused line fee to the lenders with respect to the unutilized revolving commitments at a rate that shall not exceed 50 basis points per annum.

Our obligations under the Senior Credit Facilities are unconditionally and irrevocably guaranteed by our domestic subsidiaries. In addition, the Senior Credit Facilities are secured by first priority perfected security interests in substantially all of our and our domestic subsidiaries' capital stock, and up to 65% of the outstanding capital stock of our foreign subsidiaries.

The credit agreement governing the Senior Credit Facilities contains certain events of default and restrictive covenants which are customary with respect to facilities of this type, including limitations on the incurrence of additional indebtedness, dividends, investments, repayment of certain indebtedness, sales of assets, liens, mergers and transactions with affiliates. In addition, the credit agreement requires compliance with certain financial and operating covenants, including a minimum cash interest coverage ratio and a maximum net leverage ratio.

**Long-Term Debt matures as follows (In millions):**

Year ending 2008	\$ 1.3
2009	1.8
2010	1.8
2011	1.8
2012	1.8
2013 and thereafter	\$323.1

**Line and Letters of Credit:**

In connection with the Merger, we obtained a line of credit facility of \$25.0 million, with a sub-limit for letters of credit of \$10.0 million. This replaced our prior line of credit. There were \$3.7 million of letters of credit outstanding as of March 30, 2008. The letters of credit have been issued instead of cash security deposits under our operating leases or to guarantee construction costs of our locations, and for run-out claims under our medical plan.

**4. Income Taxes:**

Effective January 31, 2007, the Company has been organized as a C Corporation. Income taxes are accounted for under the asset and liability method. 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**SBARRO INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Continued)**

**5. Business Segment Information:**

We operate our business through two segments. Our company-owned restaurant segment is comprised of the operating activities of our company-owned QSR's and other concept restaurants. Our franchise restaurant segment is comprised of our franchised restaurants which offer opportunities worldwide for qualified operators to conduct business under the Sbarro name and other trade names owned by Sbarro. Revenue from our franchised restaurant segment is generated from initial franchise fees, ongoing royalties and other franchising revenue. We do not allocate indirect corporate charges to our operating segments. Such costs are managed on an entity-wide basis, and the information to reasonably allocate such costs is not readily available. We do not allocate assets by segment because our chief operating decision makers do not review the assets by segment to assess performance, as the assets are managed on an entity-wide basis. Our operating segments are discussed in *Note 3—Summary of Significant Accounting Policies* and *Note 15—Business Segment Information* to our *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 30, 2007.

The following table sets forth the information concerning the revenue and operating income before unallocated costs of each of our company-owned and franchised restaurant segments:

	Company- Owned Restaurants(1)	Franchised Restaurants (In thousands)	Totals
<b>1<sup>st</sup> Quarter 2008 (Successor)</b>			
Total revenue	\$ 79,753	\$ 3,485	\$ 83,238
Operating income before unallocated costs	<u>6,984</u>	<u>2,181</u>	9,165
Unallocated costs and expenses <sup>(2)</sup>			5,932
Operating income			<u>\$ 3,233</u>
<b>1<sup>st</sup> Quarter 2007 (Combined) <sup>(4)</sup></b>			
Total revenue	\$ 77,009	\$ 3,470	\$ 80,479
Operating income before unallocated costs	<u>9,011</u>	<u>2,100</u>	11,111
Unallocated costs and expenses <sup>(2)</sup>			37,294
Operating loss <sup>(3)</sup>			<u>\$(26,183)</u>
<b>1/31/07—4/1/07 (Successor)</b>			
Total revenue	\$ 53,092	\$ 2,477	\$ 55,569
Operating income before unallocated costs	<u>5,851</u>	<u>1,506</u>	7,357
Unallocated costs and expenses <sup>(2)</sup>			3,454
Operating income			<u>\$ 3,903</u>
<b>1/1/07—1/30/07 (Predecessor)</b>			
Total revenue	\$ 23,917	\$ 993	\$ 24,910
Operating income before unallocated costs	<u>3,160</u>	<u>594</u>	3,754
Unallocated costs and expenses <sup>(2)</sup>			33,840
Operating loss <sup>(3)</sup>			<u>\$(30,086)</u>

(1) Total revenue includes restaurant sales in the Successor period and restaurant sales and real estate revenues in the Predecessor period.

(2) Represents those general and administrative expenses that are not allocated to a segment.

(3) 2007 includes \$31.4 million related to a special event bonus.

(4) The combined results of the Successor and Predecessor for the periods in 2007 do not comply with generally accepted accounting principles; however, we believe these results provide useful information to assess the relative performance of the businesses in all periods presented in the financial statements on an ongoing basis.

**SBARRO INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Continued)**

**6. Guarantor and non-guarantor financial statements:**

Certain subsidiaries have guaranteed amounts outstanding under our credit facilities. Each of the guaranteeing subsidiaries is a direct or indirect wholly-owned subsidiary of the Company and each has fully and unconditionally guaranteed the Senior Notes and the Senior Credit Facilities on a joint and several basis.

The following condensed consolidating financial information presents:

- (1) Condensed unaudited consolidating balance sheets as of March 30, 2008 and December 30, 2007 and unaudited statements of operations and cash flows for the three months ended March 30, 2008 and the period January 31 through April 1, 2007 (Successor): (a) Sbarro, (“the Parent”), (b) the guarantor subsidiaries as a group, (c) the nonguarantor subsidiaries as a group, and (d) Sbarro on a consolidated basis.
- (2) Elimination entries necessary to consolidate the Parent with the guarantor and nonguarantor subsidiaries.

The principal elimination entries eliminate intercompany balances and transactions. Investments in subsidiaries are accounted for by the Parent on the cost method.

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Balance Sheet—Successor**  
**As of March 30, 2008**  
**ASSETS**  
**(In thousands)**  
**(Continued)**

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Current assets:</b>					
Cash and cash equivalents	\$ 11,054	\$ 2,141	\$ 249	\$ —	\$ 13,444
Receivables					
Franchise	3,653	—	—	—	3,653
Other	3,126	833	64	—	4,023
	<u>6,779</u>	<u>833</u>	<u>64</u>	<u>—</u>	<u>7,676</u>
Inventories	1,221	1,676	12	—	2,909
Prepaid expenses	1,975	445	(1)	—	2,419
Deferred tax asset	4,315	—	—	—	4,315
Total current assets	25,344	5,095	324	—	30,763
Intercompany receivables	(32,800)	33,393	(593)	—	—
Investment in subsidiaries	70,875	—	—	(70,875)	—
Property and equipment, net	26,054	39,529	15	—	65,598
Goodwill	211,236	—	—	—	211,236
Trademarks	248,000	—	—	—	248,000
Other intangible assets	31,632	—	—	—	31,632
Deferred financing costs, net	9,794	—	—	—	9,794
Deferred tax asset	23,903	—	—	—	23,903
Other assets	1,091	95	—	—	1,186
Total assets	<u>\$615,129</u>	<u>\$ 78,112</u>	<u>\$ (254)</u>	<u>\$ (70,875)</u>	<u>\$ 622,112</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Balance Sheet—Successor**  
**As of March 30, 2008**  
**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)**  
(In thousands)  
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Current liabilities:</b>					
Accounts payable	\$ 6,195	\$ 175	\$ 21	\$ —	\$ 6,391
Accrued expenses	17,685	1,874	(32)	—	19,527
Accrued interest payable	3,851	—	—	—	3,851
Due to former shareholders	6,200	—	—	—	6,200
Taxes payable on behalf of former shareholders	572	—	—	—	572
Current portion of debt	1,830	—	—	—	1,830
Total current liabilities	36,333	2,049	(11)	—	38,371
Deferred rent	781	3,061	—	—	3,842
Deferred tax liability	107,250	—	—	—	107,250
Due to former shareholders & other liabilities	8,089	1,884	—	—	9,973
Long-term debt	329,798	—	—	—	329,798
<b>Shareholders' equity:</b>					
Common stock, \$.01 par value, 1000 shares authorized, 100 issued & outstanding	—	—	—	—	—
Additional paid-in capital	133,000	68,302	—	(68,302)	133,000
(Accumulated deficit) retained earnings	(122)	2,816	(243)	(2,573)	(122)
	<u>132,878</u>	<u>71,118</u>	<u>(243)</u>	<u>(70,875)</u>	<u>132,878</u>
Total liabilities and shareholders' equity	<u>\$615,129</u>	<u>\$ 78,112</u>	<u>\$ (254)</u>	<u>\$ (70,875)</u>	<u>\$ 622,112</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Balance Sheet—Successor**  
**As of December 30, 2007**

**ASSETS**  
**(In thousands)**  
**(Continued)**

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Current assets:</b>					
Cash and cash equivalents	\$ 25,693	\$ 2,893	\$ 281	\$ —	\$ 28,867
Receivables					
Franchise	2,938	—	—	—	2,938
Other	3,484	1,001	67	—	4,552
	6,422	1,001	67	—	7,490
Inventories	1,310	1,731	15	—	3,056
Prepaid expenses	3,070	410	—	—	3,480
Deferred tax asset	2,331	—	—	—	2,331
Total current assets	38,826	6,035	363	—	45,224
Intercompany receivables	(34,460)	35,043	(583)	—	—
Investment in subsidiaries	71,588	—	—	(71,588)	—
Property and equipment, net	28,420	36,908	15	—	65,343
Goodwill	211,236	—	—	—	211,236
Trademarks	248,000	—	—	—	248,000
Other intangible assets	31,996	—	—	—	31,996
Deferred financing costs, net	10,069	—	—	—	10,069
Deferred tax asset	23,850	—	—	—	23,850
Other assets	959	94	—	—	1,053
Total assets	<u>\$630,484</u>	<u>\$ 78,080</u>	<u>\$ (205)</u>	<u>\$ (71,588)</u>	<u>\$ 636,771</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Balance Sheet—Successor**  
**As of December 30, 2007**  
**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)**  
(In thousands)  
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Current liabilities:</b>					
Accounts payable	\$ 8,345	\$ 191	\$ 50	\$ —	\$ 8,586
Accrued expenses	22,258	1,466	(39)	—	23,685
Accrued interest payable	7,745	—	—	—	7,745
Due to former shareholders	6,200	—	—	—	6,200
Taxes payable on behalf of former shareholders	2,072	—	—	—	2,072
Current portion of debt	1,830	—	—	—	1,830
Total current liabilities	48,450	1,657	11	—	50,118
Deferred rent	919	2,668	—	—	3,587
Deferred tax liability	107,130	—	—	—	107,130
Due to former shareholders & other liabilities	8,101	1,951	—	—	10,052
Long-term debt	330,255	—	—	—	330,255
<b>Shareholders' equity:</b>					
Common stock, \$.01 par value, 1000 shares authorized, 100 issued & outstanding	—	—	—	—	—
Additional paid-in capital	133,000	68,302	—	(68,302)	133,000
Retained earnings (accumulated deficit)	2,629	3,502	(216)	(3,286)	2,629
	<u>135,629</u>	<u>71,804</u>	<u>(216)</u>	<u>(71,588)</u>	<u>135,629</u>
Total liabilities and shareholders' equity	<u>\$630,484</u>	<u>\$ 78,080</u>	<u>\$ (205)</u>	<u>\$ (71,588)</u>	<u>\$ 636,771</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Statement of Operations—Successor**  
**For the three months ended March 30, 2008**  
(In thousands)  
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>Revenues:</b>					
Restaurant sales	\$33,844	\$ 45,569	\$ 340	\$ —	\$ 79,753
Franchise related income	3,485	—	—	—	3,485
Intercompany charges	5,934	(5,891)	(43)	—	—
Total revenues	<u>43,263</u>	<u>39,678</u>	<u>297</u>	<u>—</u>	<u>83,238</u>
<b>Costs and expenses:</b>					
Cost of food and paper products	8,271	9,025	86	—	17,382
Payroll and other employee benefits	9,152	13,075	86	—	22,313
Other operating costs	13,063	16,795	151	—	30,009
Other income, net	(543)	(676)	—	—	(1,219)
Depreciation and amortization	2,138	1,979	1	—	4,118
General and administrative	7,235	—	—	—	7,235
Asset impairment, restaurant closings	—	167	—	—	167
Total costs and expenses, net	<u>39,316</u>	<u>40,365</u>	<u>324</u>	<u>—</u>	<u>80,005</u>
Operating income (loss)	3,947	(687)	(27)	—	3,233
<b>Other (expense) income:</b>					
Interest expense	(7,735)	(1)	—	—	(7,736)
Interest income	71	2	—	—	73
Equity in net loss of unconsolidated affiliates	(150)	—	—	—	(150)
Net other (expense) income	<u>(7,814)</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>(7,813)</u>
Equity in loss of subsidiaries	(713)	—	—	713	—
Loss before income taxes	(4,580)	(686)	(27)	713	(4,580)
Income tax benefit	(1,829)	—	—	—	(1,829)
Net loss	<u>\$ (2,751)</u>	<u>\$ (686)</u>	<u>\$ (27)</u>	<u>\$ 713</u>	<u>\$ (2,751)</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Statement of Operations—Successor**  
**For the period January 31—April 1, 2007**  
(In thousands)  
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>Revenues:</b>					
Restaurant sales	\$23,410	\$ 29,487	\$ 195	\$ —	\$ 53,092
Franchise related income	2,477	—	—	—	2,477
Intercompany charges	1,770	—	(10)	(1,760)	—
Total revenues	<u>27,657</u>	<u>29,487</u>	<u>185</u>	<u>(1,760)</u>	<u>55,569</u>
<b>Costs and expenses:</b>					
Cost of food and paper products	5,061	5,584	52	—	10,697
Payroll and other employee benefits	6,227	8,693	53	—	14,973
Other operating costs	8,571	10,356	72	—	18,999
Depreciation and amortization	1,407	1,508	1	—	2,916
Other income, net	(385)	(23)	(17)	—	(425)
General and administrative	4,310	12	101	—	4,423
Asset impairment, restaurant closings	—	83	—	—	83
Intercompany charges	—	1,760	—	(1,760)	—
Total costs and expenses, net	<u>25,191</u>	<u>27,973</u>	<u>262</u>	<u>(1,760)</u>	<u>51,666</u>
Operating income (loss)	2,466	1,514	(77)	—	3,903
<b>Other (expense) income:</b>					
Interest expense	(5,304)	—	—	—	(5,304)
Interest income	322	10	—	—	332
Net other (expense) income	<u>(4,982)</u>	<u>10</u>	<u>—</u>	<u>—</u>	<u>(4,972)</u>
Equity in income of subsidiaries	1,447	—	—	(1,447)	—
Income (loss) before income taxes	(1,069)	1,524	(77)	(1,447)	(1,069)
Income tax benefit	(440)	—	—	—	(440)
Net income (loss)	<u>\$ (629)</u>	<u>\$ 1,524</u>	<u>\$ (77)</u>	<u>\$ (1,447)</u>	<u>\$ (629)</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Statement of Cash Flows—Successor**  
**For the three months ended March 30, 2008**  
(In thousands)  
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>Operating Activities:</b>					
Net (loss) income	\$ (2,751)	\$ (686)	\$ (27)	\$ 713	\$ (2,751)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	2,138	1,979	1	—	4,118
Amortization of deferred financing costs	275	—	—	—	275
Increase in deferred rent, net	230	22	—	—	252
Asset impairment, restaurant closings/remodels	—	167	—	—	167
Change in deferred tax benefit	(1,917)	—	—	—	(1,917)
Equity in net loss of unconsolidated affiliates	150	—	—	—	150
Equity in loss of subsidiaries	713	—	—	(713)	—
Changes in operating assets and liabilities:					
(Increase) decrease in receivables	(357)	203	3	—	(151)
Decrease in inventories	91	55	2	—	148
Decrease (increase) in prepaid expenses	1,095	(35)	1	—	1,061
Increase in other assets	(23)	(2)	—	—	(25)
(Decrease) increase in accounts payable and accrued expenses	(8,338)	270	(22)	—	(8,090)
Decrease in accrued interest payable	(3,894)	—	—	—	(3,894)
Net cash (used in) provided by operating activities	<u>(12,588)</u>	<u>1,973</u>	<u>(42)</u>	<u>—</u>	<u>(10,657)</u>
<b>Investing Activities:</b>					
Purchases of property and equipment	(1,092)	(2,531)	—	—	(3,623)
Purchases of other locations	—	(425)	—	—	(425)
Investment in joint ventures	(260)	—	—	—	(260)
Net cash used in investing activities	<u>(1,352)</u>	<u>(2,956)</u>	<u>—</u>	<u>—</u>	<u>(4,308)</u>
<b>Financing Activities:</b>					
Repayment of secured term loan	(458)	—	—	—	(458)
Intercompany balances	(241)	231	10	—	—
Net cash (used in) provided by financing activities	<u>(699)</u>	<u>231</u>	<u>10</u>	<u>—</u>	<u>(458)</u>
Decrease in cash and cash equivalents	(14,639)	(752)	(32)	—	(15,423)
Cash and cash equivalents at beginning of period	25,693	2,893	281	—	28,867
Cash and cash equivalents at end of period	<u>\$ 11,054</u>	<u>\$ 2,141</u>	<u>\$ 249</u>	<u>\$ —</u>	<u>\$ 13,444</u>

**SBARRO, INC. AND SUBSIDIARIES**  
**Notes To Unaudited Consolidated Financial Statements**  
**Consolidating Statement of Cash Flows—Successor**  
**For the period January 31—April 1, 2007**  
(In thousands)  
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>Operating Activities:</b>					
Net (loss) income	\$ (629)	\$ 1,524	\$ (77)	\$ (1,447)	\$ (629)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,407	1,508	1	—	2,916
Amortization of deferred financing costs	143	—	—	—	143
Amortization of senior note	98	—	—	—	98
(Decrease)increase in deferred rent, net	(100)	320	—	—	220
Asset impairment, restaurant closings/remodels	83	—	—	—	83
Change in deferred tax benefit	(578)	—	—	—	(578)
Equity in earnings of subsidiaries	(1,447)	—	—	1,447	—
Changes in operating assets and liabilities, net of effects of merger:					
(Increase) decrease in receivables	1,012	377	—	—	1,389
(Increase) decrease in inventories	70	55	9	—	134
(Increase) decrease in prepaid expenses	936	262	1	—	1,199
(Increase) decrease in other assets	(137)	(1)	—	—	(138)
Increase (decrease) in accounts payable and accrued expenses	6,462	(875)	13	—	5,600
Increase in accrued interest payable	3,930	—	—	—	3,930
Net cash provided by (used in) operating activities	<u>11,250</u>	<u>3,170</u>	<u>(53)</u>	<u>—</u>	<u>14,367</u>
<b>Investing Activities:</b>					
Purchases of property and equipment	(2,096)	(930)	(14)	—	(3,040)
Net cash paid for merger, net of cash acquired	<u>(177,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(177,000)</u>
Net cash used in investing activities	<u>(179,096)</u>	<u>(930)</u>	<u>(14)</u>	<u>—</u>	<u>(180,040)</u>
<b>Financing Activities:</b>					
Proceeds from shareholders for issuance of common stock	133,000	—	—	—	133,000
Proceeds from secured term loan	183,000	—	—	—	183,000
Proceeds from senior notes	150,000	—	—	—	150,000
Paydown of Predecessor's notes	(267,000)	—	—	—	(267,000)
Debt issue costs	(11,000)	—	—	—	(11,000)
Intercompany balances	(528)	131	397	—	—
Net cash (used in) provided by financing activities	<u>187,472</u>	<u>131</u>	<u>397</u>	<u>—</u>	<u>188,000</u>
Increase in cash and cash equivalents	19,626	2,371	330	—	22,327
Cash and cash equivalents at beginning of period	—	—	—	—	—
Cash and cash equivalents at end of period	<u>\$ 19,626</u>	<u>\$ 2,371</u>	<u>\$ 330</u>	<u>\$ —</u>	<u>\$ 22,327</u>

**Supplemental non cash investing activities:**

On January 30, 2007, the Company transferred its interest of \$5.6 million of certain non-core assets to a newly-formed company owned by certain of our former shareholders.

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

### **Forward-Looking Statements**

We make statements in this Quarterly Report that are considered forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. The words "anticipate," "believe," "estimate," "intend," "may," "will," "expect" and similar words often indicate that a statement is a "forward-looking statement." Statements about non-historic results also are considered to be forward-looking statements. None of these forward-looking statements are guarantees of future performance or events, and they are subject to numerous risks, uncertainties and other factors. These risks, uncertainties and other factors include, but are not limited to:

- general economic, inflation, national security, weather and business conditions;
- the availability of suitable restaurant sites in appropriate regional shopping malls and other locations on reasonable rental terms;
- changes in consumer tastes;
- changes in population and traffic patterns, including the effects that military action and terrorism or other events may have on the willingness of consumers to frequent malls, airports or downtown areas which are the predominant areas in which our restaurants are located;
- our ability to continue to attract franchisees;
- the success of our present, and any future, joint ventures and other expansion opportunities;
- the availability of food (particularly cheese and tomatoes), beverage and paper products;
- our ability to pass along cost increases to our customers;
- increases in the Federal minimum wage;
- the continuity of services of members of our senior management team;
- our ability to attract and retain competent restaurant and executive managerial personnel;
- competition;
- the level of, and our ability to comply with, government regulations;
- our ability to generate sufficient cash flow to make interest payments and principal under our borrowing agreements;
- our ability to comply with financial covenants and ratios and the effects the restrictions imposed by those financial covenants and ratios may have on our ability to operate our business; and
- our ability to repurchase and/or repay amounts under our borrowing agreements to the extent required in the event of certain circumstances as defined in our borrowing agreements.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this report. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this report.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements, the notes thereto and other data and information appearing elsewhere in this report.

### **Executive Overview**

For the purposes of management's discussion and analysis, the first quarter of 2008 is the three months ended March 30, 2008 and the first quarter 2007 is the combined Predecessor and Successor period of January 1, 2007 through April 1, 2007.

We believe we are the world's leading Italian Quick Service Restaurant ("QSR") concept and the largest shopping mall-focused restaurant concept in the world. We have a global base of 1,040 units in 43 countries, with 504 company-owned units, 528 franchised units and 8 joint venture units. Sbarro restaurants feature a menu of popular Italian food, including pizza, a selection of pasta dishes and other hot and cold Italian entrees, salads, sandwiches, drinks and desserts.

We operate our business through two segments. Our company-owned restaurant segment is comprised of the operating activities of our company-owned QSR's and other concept restaurants. Our franchised restaurant segment is comprised of our franchised restaurants which offer opportunities worldwide for qualified operators to conduct business under the Sbarro name

and other trade names owned by Sbarro. Revenue from our franchised restaurant segment is generated from initial franchise fees, ongoing royalties and other franchising revenue. We do not allocate indirect corporate charges to our operating segments. Such costs are managed on an entity-wide basis, and the information to reasonably allocate such costs is not readily available. We do not allocate assets by segment because our chief operating decision makers do not review the assets by segment to assess performance, as the assets are managed on an entity-wide basis. Our operating segments are discussed in *Note 3—Summary of Significant Accounting Policies and Note 15—Business Segment Information* to our *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 30, 2007.

### Our Restaurant Expansion

The following table summarizes the number of company-owned, franchised, and joint venture restaurants in operation during each indicated period:

	3 months ended 3/30/08 (Successor)	Period 1/31/07- 4/01/07 (Successor)	Period 1/1/07- 1/30/07 (Predecessor)
<b>Company-owned Sbarro restaurants:</b>			
Open at beginning of period	506	484	485
Opened during period	4	1	1
Acquired from franchisees during period	—	1	—
Closed during period	(6)	(2)	(2)
Open at end of period	<u>504</u>	<u>484</u>	<u>484</u>
<b>Franchised Sbarro restaurants:</b>			
Open at beginning of period	524	480	478
Opened during period	19	12	3
Transferred to Sbarro during period	—	(1)	—
Closed during period	(15)	(2)	(1)
Open at end of period	<u>528</u>	<u>489</u>	<u>480</u>
<b>Joint venture Sbarro restaurants:</b>			
Open at beginning of period	7	—	—
Opened during period	1	—	—
Closed during period	—	—	—
Open at end of period	<u>8</u>	<u>—</u>	<u>—</u>
<b>All restaurants:</b>			
Open at beginning of period	1,037	964	963
Opened during period	24	13	4
Closed during period	(21)	(4)	(3)
Open at end of period	<u>1,040</u>	<u>973</u>	<u>964</u>

### Seasonality

Revenues are highest in our fourth quarter due primarily to increased traffic in shopping malls during the holiday shopping season. Our annual revenues and earnings can fluctuate due to the length of the holiday shopping period between Thanksgiving and New Year's Day.

### Goodwill and Other Intangible Assets

Due to the seasonality of our business, until we determine the results of operations for our fourth quarter, we are not able to perform our annual test for impairment on our goodwill and intangible assets with indefinite lives as required by SFAS No. 142, "Goodwill and Other Intangible Assets," and fully evaluate the impairment of long-lived assets as required by SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." Any required adjustments are recorded at that time unless impairment factors become evident earlier.

**Financial Information (Dollars in millions)**

	Three months ended <u>March 30, 2008</u> (Successor)	Three months ended <u>April 1, 2007</u> (Combined) (2)
Comparable sales-percentage change vs. prior comparable period <sup>(1)</sup> :		
QSR-owned locations	0.3%	2.7%
Franchise locations:		
Domestic Franchise	0.1%	3.4%
International Franchise	8.3%	7.0%
Cost of food and paper products as a percentage of restaurant sales	21.8%	19.6%
Payroll and other benefits as a percentage of restaurant sales	28.0%	28.3%
Other operating expense as a percentage of restaurant sales	37.6%	36.3%
General and administrative costs as a percentage of revenues	8.7%	9.0%
EBITDA <sup>(3)</sup>	\$ 7.2	\$ (22.0)

- (1) Comparable and annual percentage changes are based on locations that were open during the entire period within the periods presented.
- (2) The combined results of the Successor and Predecessor for the three months ended April 1, 2007 does not comply with generally accepted accounting principles; however, we believe this provides useful information to discuss the relative performance of the business in all periods presented in the financial statements on an ongoing basis.
- (3) EBITDA represents earnings before interest income, interest expense, taxes, depreciation and amortization. EBITDA should not be considered in isolation from, or as a substitute for, net income, cash flow from operations or other cash flow statement data prepared in accordance with generally accepted accounting principles ("GAAP") or as a measure of a company's profitability or liquidity. Rather, we believe that EBITDA provides relevant and useful information for analysts of, and investors in, our Senior Notes in that EBITDA is one of the factors in the calculation of our compliance with the ratios in the Senior Credit Facilities. We also internally use EBITDA to determine whether to continue operating restaurant units since it provides us with a measurement of whether we are receiving an adequate cash return on our investment. Our calculation of EBITDA may not be comparable to a similarly titled measure reported by other companies, since all companies do not calculate this non-GAAP measure in the same manner. Our EBITDA calculations are not intended to represent cash provided by (used in) operating activities since they do not include interest and taxes and changes in operating assets and liabilities, nor are they intended to represent a net increase in cash since they do not include cash provided by (used in) investing and financing activities. Included in the calculation of EBITDA for Predecessor and Combined 2007 is \$31.4 million related to a special event bonus.

The following table reconciles EBITDA to our net loss for each of the periods presented, which we believe is the most direct comparable GAAP financial measure to EBITDA (In thousands):

	Three months ended March 30, 2008 (Successor)	Three months ended April 1, 2007 (Combined) <sup>(*)</sup>	January 31-April 1, 2007 (Successor)	January 1- January 30, 2007 (Predecessor)
EBITDA	\$ 7,201	\$ (21,983)	\$ 6,819	\$ (28,802)
Interest Expense	(7,736)	(7,874)	(5,304)	(2,570)
Interest Income	73	440	332	108
Income Tax Benefit (Expense)	1,829	396	440	(44)
Depreciation and Amortization	(4,118)	(4,188)	(2,916)	(1,272)
Net loss	<u>\$ (2,751)</u>	<u>\$ (33,209)</u>	<u>\$ (629)</u>	<u>\$ (32,580)</u>

(\*) The combined results of the Successor and Predecessor for the period in 2007 does not comply with generally accepted accounting principles; however, we believe that this provides useful information to assess the relative performance of the businesses in all periods presented in the financial statements on an ongoing basis.

The following table sets forth the information concerning the revenue and operating income before unallocated costs of each of our company-owned and franchised restaurant segments:

	Company- Owned Restaurants <sup>(1)</sup>	Franchised Restaurants (In thousands)	Totals
<b>1<sup>st</sup> Quarter 2008 (Successor)</b>			
Total revenue	\$ 79,753	\$ 3,485	\$ 83,238
Operating income before unallocated costs	<u>6,984</u>	<u>2,181</u>	9,165
Unallocated costs and expenses <sup>(2)</sup>			5,932
Operating income			<u>\$ 3,233</u>
<b>1<sup>st</sup> Quarter 2007 (Combined) <sup>(4)</sup></b>			
Total revenue	\$ 77,009	\$ 3,470	\$ 80,479
Operating income before unallocated costs	<u>9,011</u>	<u>2,100</u>	11,111
Unallocated costs and expenses <sup>(2)</sup>			37,294
Operating loss <sup>(3)</sup>			<u>\$(26,183)</u>
<b>1/31/07—4/1/07 (Successor)</b>			
Total revenue	\$ 53,092	\$ 2,477	\$ 55,569
Operating income before unallocated costs	<u>5,851</u>	<u>1,506</u>	7,357
Unallocated costs and expenses <sup>(2)</sup>			3,454
Operating income			<u>\$ 3,903</u>
<b>1/1/07—1/30/07 (Predecessor)</b>			
Total revenue	\$ 23,917	\$ 993	\$ 24,910
Operating income before unallocated costs	<u>3,160</u>	<u>594</u>	3,754
Unallocated costs and expenses <sup>(2)</sup>			33,840
Operating loss <sup>(3)</sup>			<u>\$(30,086)</u>

(1) Total revenue includes restaurant sales in the Successor period and restaurant sales and real estate revenues in the Predecessor period.

(2) Represents those general and administrative expenses that are not allocated to a segment.

(3) 2007 includes \$31.4 million related to a special event bonus.

(4) The combined results of the Successor and Predecessor for the periods in 2007 do not comply with generally accepted accounting principles; however, we believe these results provide useful information to assess the relative performance of the businesses in all periods presented in the financial statements on an ongoing basis.

**SBARRO, INC. AND SUBSIDIARIES**  
**COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	GAAP		GAAP		"Combined"
	Three months ended March 30, 2008 SUCCESSOR	For the period January 31 through April 1, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR	Three months ended April 1, 2007 *	
<b>Revenues:</b>					
Restaurant sales	\$ 79,753	\$ 53,092	\$ 23,594	\$ 76,686	
Franchise related income	3,485	2,477	993	3,470	
Real estate	—	—	323	323	
Total revenues	<u>83,238</u>	<u>55,569</u>	<u>24,910</u>	<u>80,479</u>	
<b>Costs and expenses:</b>					
Cost of food and paper products	17,382	10,697	4,308	15,005	
Payroll and other employee benefits	22,313	14,973	6,762	21,735	
Other operating costs	30,009	18,999	8,839	27,838	
Other income, net	(1,219)	(425)	(497)	(922)	
Depreciation and amortization	4,118	2,916	1,272	4,188	
General and administrative	7,235	4,423	2,843	7,266	
Special event bonuses	—	—	31,395	31,395	
Asset impairment and restaurant closings/remodels	167	83	74	157	
Total costs and expenses, net	<u>80,005</u>	<u>51,666</u>	<u>54,996</u>	<u>106,662</u>	
Operating income (loss)	<u>3,233</u>	<u>3,903</u>	<u>(30,086)</u>	<u>(26,183)</u>	
<b>Other (expense) income:</b>					
Interest expense	(7,736)	(5,304)	(2,570)	(7,874)	
Interest income	73	332	108	440	
Equity in net income (loss) of unconsolidated affiliates	(150)	—	12	12	
Net other expense	<u>(7,813)</u>	<u>(4,972)</u>	<u>(2,450)</u>	<u>(7,422)</u>	
Loss before income taxes	<u>(4,580)</u>	<u>(1,069)</u>	<u>(32,536)</u>	<u>(33,605)</u>	
Income tax (benefit) expense	<u>(1,829)</u>	<u>(440)</u>	<u>44</u>	<u>(396)</u>	
Net (loss) income	<u>\$ (2,751)</u>	<u>\$ (629)</u>	<u>\$ (32,580)</u>	<u>\$ (33,209)</u>	

\* The combined results of the successor and predecessor for the periods in 2007 do not comply with generally accepted accounting principles; however, we believe these results provide useful information to assess the relative performance of the businesses in all periods presented in the financial statements on an ongoing basis.

Sales by QSR and consolidated other concept restaurants increased by 4.0% to \$79.8 million for the three months ended March 30, 2008 compared to \$76.7 for the combined three months ended April 1, 2007. The increase in sales is due to sales generated by new stores opened in 2007 and 2008 of \$3.5 million and comparable unit sales increase of .3% in our QSR restaurants slightly offset by stores closed.

Franchise related revenues remained flat at \$3.5 million for the first quarter of 2008 compared to the combined first quarter of 2007.

Cost of food and paper products as a percentage of restaurant sales increased to 21.8% for first quarter of 2008 compared to 19.6% for the combined first quarter of 2007. The cost of cheese in the first quarter of 2008 averaged approximately \$2.17 per pound compared to an average of approximately \$1.55 per pound in the combined first quarter of 2007. This \$.62 per pound increase in cheese costs accounted for \$1.2 million or 1.5% of restaurant sales. The remaining increase as a percentage of restaurant sales relates to other commodity cost increases.

Payroll and other employee benefits as a percentage of restaurant sales decreased to 28.0% in the first quarter of 2008 from 28.3% in the combined first quarter of 2007.

Other operating costs as a percentage of restaurant sales increased to 37.6% in the first quarter 2008 as compared to 36.3% in the combined first quarter of 2007. The increase is primarily due to occupancy related charges.

Other income, net was \$1.2 million for the first quarter of 2008 compared to \$.9 million in the combined first quarter of 2007.

Depreciation and amortization remained relatively flat at \$4.1 million in first quarter 2008 and the combined first quarter of 2007.

General and administrative expenses were \$7.2 million in the first quarter 2008 as compared to \$7.3 million in the combined first quarter of 2007. Expenses of \$.3 million in 2007 related to our former shareholders and were eliminated in connection with the Merger. Comparable general and administrative expenses remained flat.

In Predecessor 2007, in connection with the Merger, special event bonuses paid were \$31.4 million

Interest expense of \$7.7 million for the first quarter of 2008 and \$7.9 million for the combined first quarter of 2007 relates primarily to the Senior Notes and the Term Loan under our Senior Credit Facility in Successor 2007. Included in interest expense in first quarter 2008 was the amortization of deferred financing costs for the Senior Notes and Term Loan of \$.3 million. In Predecessor 2007, interest expense related to the 11%, \$255 million senior notes and the 8.4%, \$16 million mortgage loan on our corporate headquarters. In connection with the Merger, the 11% Notes were redeemed and mortgage loan and interests in our corporate headquarters were transferred to a company owned by certain of our former shareholders.

In our Successor period after January 31, 2007, we are taxed as a C Corporation. The income tax benefit was \$1.8 million for the first quarter of 2008 and our effective tax rate was 39.9%. The income tax benefit was \$.4 million for the period January 31 through April 1, 2007 (Successor) and our effective tax rate was 41% for that period. Prior to January 31, 2007, we were taxed under the provisions of Subchapter S of the Internal Revenue Code and, where applicable and permitted, under similar state and local income tax provisions. Under the provisions of Subchapter S, substantially all taxes on our income were paid by our former shareholders rather than by the Company.

## **Liquidity and Capital Resources**

### **Principal Cash Requirements and Sources**

Our liquidity requirements relate to debt service, capital expenditures, working capital, investments in other ventures, and acquisitions. We estimate that our annual cash interest expense under the Senior Notes and Senior Credit Facilities that we put into place in connection with the Merger will be approximately \$29 million. We also may incur additional interest expense for borrowings under our line of credit. The Senior Credit Facilities require us to prepay outstanding borrowings, subject to certain exceptions, with (a) 50% of our annual excess cash flow (subject to step-downs based upon our total leverage ratio); (b) 100% of the net cash proceeds of certain asset sales or other dispositions of property (including casualty insurance and condemnations) if we do not commit to reinvest such proceeds in accordance with the terms of the Senior Credit Facilities within 365 days of the event giving rise thereto (or, to the extent we have entered into a commitment to reinvest such proceeds within such time period to the extent such amounts are actually reinvested, within six months of the expiration of such 365 days); and (c) 100% of the net cash proceeds of any incurrence of debt, other than debt permitted under the Senior Credit Facilities. We are not required to make principal payments, absent the occurrence of certain events, on our Senior Notes until they mature in 2015. We purchased a QSR location for approximately \$.4 million and invested approximately \$.3 million in joint ventures in the first quarter of 2008. We repaid \$.5 million in principal per the terms of

our Term Loan. We believe that aggregate capital expenditures for all of 2008 will approximate \$18 million which we expect will be funded with operating cash.

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our Senior Credit Facilities will be adequate to meet our liquidity needs for at least the next twelve months.

### Contractual Obligations

Our contractual obligations do not materially differ from the information disclosed in Part II, Item 7 of our Annual Report Form 10-K for the year ended December 30, 2007.

### Sources and Uses of Cash

The following table summarizes our cash and cash equivalents and working capital as at the end of the first quarters of 2008 and 2007 and the sources and uses of our cash flows during the first quarters of each of those years (in millions):

	<u>Quarter Ended</u> <u>March 30, 2008</u> (Successor)	<u>Period Jan. 31 -</u> <u>April 1, 2007</u> (Successor)	<u>Period Jan. 1 -</u> <u>Jan. 30, 2007</u> (Predecessor)
<u>Liquidity at the end of period</u>			
Cash and cash equivalents	\$ 13.4	\$ 22.3	
Working capital	(7.6)	2.0	
<u>Net cash flows</u>			
(Used in) provided by operating activities	\$ (10.7)	\$ 14.3	\$ (5.3)
Used in investing activities	(4.3)	(180.0)	(1.7)
(Used in) provided by financing activities	(.4)	188.0	(70.6)
Net (decrease) increase in cash	<u>\$ (15.4)</u>	<u>\$ 22.3</u>	<u>\$ (77.6)</u>

We have not historically required significant working capital to fund our existing operations and have financed our capital expenditures and investments in joint ventures through cash generated from operations. Since restaurant businesses do not have large amounts of inventory and accounts receivable, there is generally no need to finance such items. As a result, we like many other restaurant businesses, may operate with negative working capital. During the quarter ended March 30, 2008, working capital has decreased by \$2.7 million. This trend is reflective of our ongoing new store opening and remodel programs, which have resulted in decreased cash and cash equivalents as well as increased liabilities associated with capital expenditures. Cash flow from current operations and our line of credit supports our working capital needs.

Net cash used in operating activities was \$10.7 million during the quarter ended March 30, 2008 as compared to \$14.3 million provided by the Successor period January 31 through April 1, 2007 and \$5.3 million used in the Predecessor period January 1 through January 30, 2007. The increase in net cash used in the period ended March 30, 2008 is primarily due to a decrease in accounts payable, accrued expenses and accrued interest payable resulting from the timing of payments. We historically have our peak annual cash position and highest level of accounts payable and accrued expenses at the end of the holiday season, which coincides with our year end. These payables and accrued expenses are paid during the first quarter of the ensuing year, predominantly using our year-end cash. Net cash used by operating activities of \$5.3 million in our Predecessor period January 1 through January 31, 2007 was primarily due to a decrease in accounts payable and accrued expenses after considering the effects of the Merger.

Net cash used in investing activities was \$4.3 million for the quarter ended March 30, 2008. Net cash used in the quarter ended March 30, 2008 was mostly capital expenditures utilized primarily for restaurant openings and renovation activity. Net cash used was \$180.0 million for the Successor period January 31 through April 1, 2007 of which \$177 million was net cash paid for the Merger. Net cash used was \$1.7 million for the Predecessor period January 1 through January 30, 2007.

The cash used in financing activities was \$.4 million in the quarter ended March 30, 2008 and was for principal payments on our Term Loan. The net cash provided by financing activities for the Successor period January 31 through April 1, 2007 was \$188.0 million and represents proceeds from injected capital, the proceeds from the new debt, debt issue costs and the

paydown of the old debt. Net cash used in financing activities for the Predecessor period of January 1 through January 30, 2007 of \$70.6 million represents dividends to our former shareholders net of repayments of officer loans.

### **Critical Accounting Policies and Judgments**

Accounting policies are an integral part of the preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America. Understanding these policies, therefore, is a key factor in understanding our reported results of operations and financial position. Accounting policies often require us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in our financial statements. Due to their nature, estimates involve judgments based upon available information. Therefore, actual results or amounts could differ from estimates and the difference could have a material impact on our consolidated financial statements.

During the quarter ended March 30, 2008, there were no changes in the accounting policies whose application may have the most significant effect on our reported results of financial position and that require judgments, estimates and assumptions by management that can affect their application and our results of operations and financial position from those discussed under the heading “Critical Accounting Policies and Judgments” in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 30, 2007.

### **Recent Accounting Pronouncements**

#### **SFAS 157:**

In September 2006, FASB issued Statement SFAS No. 157, “Fair Value Measurements”. This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued a final Staff Position to allow a one-year deferral of adoption of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB amended SFAS No. 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. We elected to defer adoption of SFAS No. 157 for non-financial assets and non-financial liabilities and we do not currently anticipate that full adoption in 2009 will materially impact our consolidated financial statements. We evaluated SFAS No. 157 and determined that the adoption of the provisions effective December 31, 2007 did not have a material effect on our consolidated financial statements.

#### **SFAS 159:**

On December 31, 2007, we adopted FASB Statement SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115” (“SFAS No. 159”), which is effective for fiscal years beginning after November 15, 2007. Under SFAS No. 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. We evaluated SFAS No. 159 and do not have any items eligible for the fair value accounting option of; therefore, the adoption of SFAS No. 159 had no impact on our consolidated financial statements.

#### **SFAS 141 (R):**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“FAS 141(R)”), which is effective for annual periods beginning on or after December 15, 2008. In FAS 141(R), the FASB retained the fundamental requirements of Statement No. 141 to account for all business combinations using the acquisition method (formerly the purchase method) and for an acquiring entity to be identified in all business combinations. However, the new standard requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date for value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The Company will apply the provisions of this statement prospectively to business combinations for which the acquisition date is on or after December 29, 2008 and is currently assessing the impact of adoption of SFAS No. 141(R) on its consolidated financial statements.

#### **SFAS 160:**

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51,” which is effective for fiscal years beginning on or after December 15, 2008. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires that companies provide sufficient disclosures to clearly identify and distinguish between the interest of the parent company and the interest of the noncontrolling interest holder. We have not yet determined the impact, if any, that SFAS No. 160 will

have on our consolidated financial statements.

**SFAS 161:**

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" SFAS No. 161. ("SFAS No. 161") amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not currently use derivative instruments and therefore SFAS No. 161 will not have an effect on our consolidated financial statements.

**Certain Relationships and Related Transactions**

During the first quarter of 2008, there were no related party transactions in addition to those discussed under the heading "Certain Relationships and Related Transactions" in Part II, Item 13 of our Annual Report on Form 10-K for the year ended December 30, 2007.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to certain risks which exist as part of our ongoing business operation.

**Interest Rate Risk**

We currently invest our cash on hand in FDIC insured overnight cash management savings accounts earning interest based on the 91-day Treasury bill rates. The indenture governing the Senior Notes limits the nature of our investments to those of lower risk. Although our existing investments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on short-term investments could be affected at the time of reinvestment as a result of intervening events.

The interest rate on borrowings under our Senior Credit Facilities is floating and, therefore, is subject to fluctuations. In general, borrowings under the Senior Credit Facilities bear interest based, at our option, at either the Eurodollar rate or an alternative base rate ("ABR"), in each case plus a margin. The applicable margin will be based on our total leverage ratio (as defined in the credit agreement governing the Senior Credit Facilities) at the time of determination. Currently, our rate of interest for borrowings under the Senior Credit Facilities is LIBOR plus 2.50% or ABR plus 1.50%. A 1% change in our current rate would have an annual effect of approximately \$1.8 million. Subsequent to the Merger, we entered into an Interest Rate Cap Letter Agreement with a bank for a portion of our Senior Credit Facility. This agreement caps our LIBOR rate at 6.00% through February 2009 and 6.50% through February 2010.

We have not purchased future, forward, option or other instruments to hedge against fluctuations in the prices of the commodities we purchase. As a result, our future commodities purchases are subject to changes in the prices of such commodities. We have entered and sometimes will enter into short-term, fixed rate contracts for some products we purchase.

**Foreign Exchange Rate Risk**

All of our transactions with foreign franchisees have been denominated in, and all payments have been made in, United States dollars, thereby reducing the risks in the changes of the values of foreign currencies. As a result, we have not purchased future contracts, options or other instruments to hedge against changes in values of foreign currencies.

**Item 4T. Controls and Procedures**

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. As there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within our Company have been detected. Inherent limitations include human errors or misjudgments. Controls also can be circumvented by the intentional acts of individuals or groups.

**Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in our periodic filings under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including those officers, to allow timely decisions regarding required disclosure.

**Changes in Internal Controls Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Legal proceedings included in our Annual Report on Form 10-K for the year ended December 30, 2007 in Note 10 to the Notes to Consolidated Financial Statements have not materially changed.

### **Item 1A. Risk Factors**

The risk factors included in our Annual Report on Form 10-K for the year ended December 30, 2007 have not materially changed. You should consider carefully the risks described under *Item 1A Risk Factors* in our Annual Report on Form 10-K for the year ended December 30, 2007. The risks and uncertainties described in our Annual Report on Form 10-K for the period ended December 30, 2007 are not the only ones that may affect us. If any of the events described actually occur, our business and financial results could be materially adversely affected.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Default upon senior securities**

None.

### **Item 4. Submission of matters to a vote of security holders**

None.

### **Item 5. Other information**

None.

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
*3.1	Restated Certificate of Incorporation of Sbarro, Inc. (Exhibit 3.1 to our Registration Statement on Form S-4, File No. 333-142081)
*3.2	Amended and Restated Bylaws of Sbarro, Inc. (Exhibit 3.2 to our Registration Statement on Form S-4, File No. 333-142081)
*4.1	Indenture dated as of January 31, 2007 among MidOcean SBR Acquisition Corp., Sbarro, Inc., the subsidiary guarantors party thereto from time to time and the Bank of New York, as trustee. (Exhibit 4.1 to our Registration Statement on Form S-4, File No. 333-142081)
*4.2	Registration Rights Agreement dated January 31, 2007 among Sbarro, Inc., Credit Suisse Securities (USA) LLC and Banc of America Securities LLC, as Initial Purchasers. (Exhibit 4.2 to our Registration Statement on Form S-4, File No. 333-142081)
+10.1	Corporate Office Employee Bonus Plan for 2008.
31.01	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Vice President, Chief Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**32.01	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**32.02	Certification of Vice President, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Incorporated by reference to the document indicated.

\*\* These certifications are being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and are not being filed as part this Quarterly Report on Form 10-Q or as a separate disclosure document.

+ Management contract or compensatory plan.

**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.

**SBARRO, INC.**

Registrant

Date: May 12, 2008

By: /s/ Peter Beaudrault  
Peter Beaudrault,  
Chairman of the Board of Directors,  
President and Chief Executive Officer

Date: May 12, 2008

By: /s/ Anthony J. Puglisi  
Anthony J. Puglisi  
Vice President,  
Chief Financial Officer and  
Principal Accounting Officer

## EXHIBIT INDEX

### Item 6. Exhibits

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+	Management contract or compensatory plan.



**Corporate Office  
Employee Bonus Program  
2008**

March 19, 2008  
Corporate Office Employee

## SBARRO

### Corporate Office Employee Bonus Plan

Purpose – The purpose of this Bonus Plan (the “Plan”) is to allow all eligible Sbarro corporate office employees to share in the EBITDA improvements achieved in 2008 which are in excess of our actual 2007 EBITDA results. EBITDA is an accounting term which stands for “Earnings Before Interest, Taxes, Depreciation and Amortization”. Mid Ocean Management fees are not included in the calculation of EBITDA. This Bonus Plan covers the period December 31, 2007 – December 28, 2008 (52 weeks).

Eligibility— Eligibility for participation in the Plan shall be limited to corporate office employees, including Corporate Officers, Directors, Department Managers, Other Salaried Employees and Hourly-Paid Employees and such other persons that the company shall incorporate into the plan. The effective date of this Plan is December 31, 2007. All corporate office employees employed or hired after December 31, 2007 become participants in the Plan on a pro-rata basis computed on the number of weeks worked during the plan year. Participation in the Plan ends December 28, 2008, unless extended by the Company. Participation also ends if the Plan is terminated for any reason or if the participant’s employment is terminated for any reason prior to payment.

#### How The Plan Works –

- The Business Plan EBITDA objective has been set by executive management pursuant to this plan.
- The Business Plan EBITDA objective has been made known to all plan participants pursuant to this plan.
- Each Bonus Plan participant has been told their personal targeted bonus dollars and the related percentage of salary bracket pursuant to this plan.

#### How Do I Earn a Bonus?

- During the year 2008, all plan participants will work toward meeting or exceeding Business Plan EBITDA.
- Each participant shall receive a bonus based upon exceeding the 2007 EBITDA. You will reach 100% of your targeted bonus if the Company meets its 2008 business plan EBITDA. You can achieve more than your targeted bonus if the Company exceeds its 2008 business plan EBITDA.
- Your personal targeted bonus is determined by taking your base salary and multiplying by your targeted bonus percentage as set forth for your job description or title on Exhibit A.

### How Do I Calculate My Bonus?

Should EBITDA fall any where between 2007 EBITDA of \$58,000,000 and the budgeted 2008 EBITDA of \$63,000,000 then you will receive the percentage of your targeted bonus.

### **For Example**

	<b>EBITDA Achieved</b>	<b>Personal Targeted Bonus Dollars</b>
<b>2007 EBITDA</b>	<b>\$58,000,000</b>	<b>None</b>
	\$59,000,000	20% of Personal Targeted Bonus Dollars
	\$60,000,000	40% of Personal Targeted Bonus Dollars
	\$61,000,000	60% of Personal Targeted Bonus Dollars
	\$62,000,000	80% of Personal Targeted Bonus Dollars
<b>2008 Target</b>	<b>\$63,000,000</b>	<b>100% of Personal Targeted Bonus Dollars</b>
<b>EBITDA</b>	\$64,000,000	Targeted bonus dollars plus 20%
	\$65,000,000	Targeted bonus dollars plus 40%
	\$66,000,000	Targeted bonus dollars plus 60%
	\$67,000,000	Targeted bonus dollars plus 80%
	\$68,000,000	Targeted bonus dollars plus 100%

We have used million dollar increments in the above example. Should the actual EBITDA fall between the million dollar increments the percentage of your personal targeted bonus dollars would fall between the two calculations.

### When Will The Bonus Be Paid?

Bonuses will be paid (15) days after the certified year-end statements of company performance are official, but no later than April 30, 2008. You must be an active employee at the time of the bonus plan payout to remain eligible for a bonus.

### Conclusion

This is a great opportunity for all of us to work together to share in improved EBITDA performance. We anticipate an exciting and productive 2008 for our guests, employees, vendors and shareholders.

New Hires – If an individual becomes a new participant during the plan year, the bonus award will be pro-rated based on the number of completed weeks of participation.

Leaves of Absence – Employees on an approved leave of absence during the bonus period will receive a pro-rated portion of the bonus that constitutes the time that the employee has been physically at work.

Death and Disability – In the event of involuntary termination of employment for reasons of death or continuing inability to perform job duties due to a medical condition (despite reasonable accommodation) any unpaid, earned incentive awards applicable to the bonus period shall be paid on pro-rata basis as soon as possible after the death or disability. In the event of the death of a participant in the Plan, any bonus award shall be paid to the estate or designated beneficiary.

Other Plan Provisions – Promotions and other intra and inter-company movement of employees shall be administered as specified by accepted company compensation administration practices. Where there is conflict between this Plan and other practices previously set forth, the Company, in its sole and absolute discretion, shall make a determination of Plan eligibility.

Company Standards and Legal Regulations – Awards distributed under this Plan are based on the understanding and condition that each participant will act, and will conduct the company's business, in accordance with proper business practices, policies and procedures, in strict compliance with all applicable laws and company policies, and according to the highest ethical standards. The Company, in its sole discretion, retains the right to modify, suspend, discontinue and deny bonus awards to participants who fail to comply with established company policies and business ethics, or who fail to comply with applicable federal, state and local laws.

Amendment or Termination of the Plan – The Company may terminate, amend, discontinue or modify this Plan at any time without prior notice to participants. The Bonus Plan may be discontinued or changed by the Company at any time for any reason or no reason, and should not be regarded as a condition or agreement of employment. Nothing in this Plan alters the at will status of employment, pursuant to which the company or a Plan participant can terminate their employment relationship without cause, notice or liability.

Financial Statements and Books and Records Conclusive – All determinations under this Plan shall be made in accordance with the Company's internal methods of accounting and shall be based upon the financial statements prepared by, as applicable, the Company's finance department. For this purpose, the Company's books and records will be conclusive.

**Exhibit A 2008 Targets**

<b><u>Category</u></b>	<b><u>Bonus % of Salary</u></b>
Corporate Officer	50%
Senior Vice President Operations	40%
Vice Presidents	30%
Directors	25%
Senior Manager	20%
Department Manager	15%
Other Salaried Employees	10%
Non-Exempt Supervisors	10%
Executive Administration	10%
Hourly-Paid Employees	5%

March 19, 2008  
Corporate Office Employee

## CERTIFICATION

I, Peter Beaudrault, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sbarro, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ Peter Beaudrault

Peter Beaudrault

Chairman of the Board of Directors,

President and Chief Executive Officer

(Principal Executive Officer)

## CERTIFICATION

I, Anthony J. Puglisi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sbarro, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ Anthony J. Puglisi

Anthony J. Puglisi

Vice President and Chief Financial Officer

(Principal Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sbarro, Inc. (the "Company") on Form 10-Q for the period ended March 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Beaudrault, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2008

/s/ Peter Beaudrault

Peter Beaudrault

Chairman of the Board of Directors,

President and Chief Executive Officer

(Principal Executive Officer)

NOTE: A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sbarro, Inc. (the "Company") on Form 10-Q for the period ended March 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony J. Puglisi, Vice President-Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2008

/s/ Anthony J. Puglisi

Anthony J. Puglisi

Vice President and Chief Financial Officer

Principal Financial Officer

NOTE: A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.