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

FORM 10-Q

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

For the quarter ended September 28, 2008 **Commission file number 333-142081**

SBARRO, INC.
(Exact name of registrant as specified in its charter)

NEW YORK	**11-2501939**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
401 Broad Hollow Road, Melville, New York	**11747-4714**
(Address of principal executive offices)	**(Zip Code)**

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

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 November 10, 2008 was 100.

SBARRO, INC.

FORM 10-Q INDEX

Part I – Financial Information
Item 1. Consolidated Financial Statements

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

	September 28, 2008	December 30, 2007
Current assets:		
Cash and cash equivalents	$ 13,445	$ 28,867
Receivables, net of allowance for doubtful accounts of $80 at September 28, 2008 :		
Franchise	3,292	2,938
Other	3,630	4,552
	6,922	7,490
Inventories	2,855	3,056
Prepaid expenses	4,349	3,480
Deferred tax asset	4,315	2,331
Total current assets	31,886	45,224
Property and equipment, net	68,067	65,343
Intangible assets:		
Goodwill	211,787	211,236
Trademarks	248,000	248,000
Other intangible assets	30,903	31,996
Deferred financing costs, net	9,227	10,069
Deferred tax asset	27,839	23,850
Other assets	907	1,053
Total assets	$ 628,616	$ 636,771

See notes to unaudited consolidated financial statements.

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

	September 28, 2008	December 30, 2007
Current liabilities:		
Accounts payable	$ 14,070	$ 8,586
Accrued expenses	23,804	22,584
Accrued interest payable	3,493	7,745
Due to former shareholders	2,340	6,200
Taxes payable on behalf of former shareholders	—	2,072
Insurance premium financing	1,894	1,101
Current portion of debt	1,830	1,830
Total current liabilities	47,431	50,118
Deferred rent	4,484	3,587
Deferred tax liability	107,249	107,130
Due to former shareholders and other liabilities	13,999	10,052
Long-term debt	328,883	330,255
Commitments and contingencies		
Shareholders' equity:		
Common stock		
Authorized 1,000 shares; $.01 par value issued and outstanding 100 shares at September 28, 2008 and December 30, 2007	—	—
Additional paid-in capital	133,000	133,000
Currency translation adjustments	152	—
Advances to MidOcean SBR Holdings	(305)	—
(Accumulated deficit) retained earnings	(6,277)	2,629
Total shareholders' equity	126,570	135,629
Total liabilities and shareholders' equity	$ 628,616	$ 636,771

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

	For the nine months ended September 28, 2008 SUCCESSOR	For the period January 31 through September 30, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR
Revenues:			
Restaurant sales	$ 248,379	$ 219,098	$ 23,594
Franchise related income	12,108	10,067	993
Real estate	—	—	323
Total revenues	260,487	229,165	24,910
Costs and expenses:			
Cost of food and paper products	56,983	44,621	4,308
Payroll and other employee benefits	70,860	60,092	6,762
Other operating costs	92,723	79,201	8,839
Other income, net	(2,785)	(1,924)	(497)
Depreciation and amortization	12,720	12,289	1,272
General and administrative	20,975	18,406	2,843
Special event bonuses	—	—	31,395
Asset impairment, restaurant closings/remodels	1,184	334	74
Total costs and expenses, net	252,660	213,019	54,996
Operating income (loss)	7,827	16,146	(30,086)
Other (expense) income:			
Interest expense	(21,617)	(21,036)	(2,570)
Interest income	132	461	108
Equity in net (loss) income of unconsolidated affiliates	(185)	—	12
Net other expense	(21,670)	(20,575)	(2,450)
Loss before income taxes	(13,843)	(4,429)	(32,536)
Income tax (benefit) expense	(4,937)	(1,940)	44
Net loss	$ (8,906)	$ (2,489)	$ (32,580)

See notes to unaudited consolidated financial statements.

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

	For the quarter ended September 28, 2008 SUCCESSOR	For the quarter ended September 30, 2007 SUCCESSOR
Revenues:		
Restaurant sales	$ 87,483	$ 87,047
Franchise related income	4,384	3,948
Total revenues	91,867	90,995
Costs and expenses:		
Cost of food and paper products	20,215	18,008
Payroll and other employee benefits	24,132	23,001
Other operating costs	31,523	30,597
Other income, net	(884)	(793)
Depreciation and amortization	3,986	4,751
General and administrative	6,730	7,145
Asset impairment, restaurant closings/remodels	849	125
Total costs and expenses, net	86,551	82,834
Operating income	5,316	8,161
Other (expense) income:		
Interest expense	(6,572)	(7,673)
Interest income	25	57
Equity in net loss of unconsolidated affiliates	(57)	—
Net other expense	(6,604)	(7,616)
(Loss) income before income taxes	(1,288)	545
Income tax (benefit) expense	(114)	42
Net (loss) income	$ (1,174)	$ 503

See notes to unaudited consolidated financial statements.

SBARRO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock					
	Number of Shares	Amount	Additional paid-in capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
Balance at January 31, 2007	100	—	$133,000	$ —	$ —	$133,000
Net Income	—	—	—	2,629	—	2,629
Balance at December 30, 2007	100	—	133,000	2,629	—	135,629
Components of comprehensive income:						
Net loss			—	(8,906)	—	(8,906)
Currency translation adjustments			—	—	152	152
Comprehensive income						(8,754)
Advance to MidOcean SBR Holdings			(305)	—	—	(305)
Balance at September 28, 2008	100	—	$132,695	$ (6,277)	$ 152	$126,570

See notes to unaudited consolidated financial statements.

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

	For the nine months ended September 28, 2008 SUCCESSOR	For the period January 31 through September 30, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR
Operating Activities:			
Net loss	$ (8,906)	$ (2,489)	$ (32,580)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	12,720	12,289	1,272
Amortization of deferred financing costs	841	671	112
Increase (decrease) in deferred rent, net of tenant allowance	1,218	1,058	(117)
Asset impairment and restaurant closings/remodels	1,184	334	74
Deferred tax benefit	(5,854)	(2,689)	—
Equity in net loss (income) of unconsolidated affiliates	185	—	(12)
Changes in operating assets and liabilities, net of effects of merger:			
Decrease in receivables	158	1,546	394
Decrease in inventories	333	90	319
Decrease (increase) in prepaid expenses	191	1,232	(1,434)
(Increase) decrease in other assets	(111)	(720)	871
Increase in accounts payable, accrued expenses & other liabilities	3,305	4,204	23,474
(Decrease) increase in accrued interest payable	(4,252)	3,890	2,337
Net cash provided by (used in) operating activities	1,012	19,416	(5,290)

(Continued)

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

	For the nine months ended September 28, 2008 SUCCESSOR	For the period January 31 through September 30, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR
Investing Activities:			
Purchases of property and equipment	(13,371)	(10,816)	(1,691)
Purchases of franchises and other locations	(1,261)	(4,790)	—
Investment in joint ventures	(124)	(380)	—
Cash paid for merger, net of cash acquired	—	(188,000)	—
Net cash used in investing activities	(14,756)	(203,986)	(1,691)
Financing Activities:			
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)	—
Repayment of secured term loan	(1,373)	(915)	—
Advances to MidOcean SBR Holdings	(305)	—	—
Mortgage principal repayments	—	—	(17)
Dividends to sellers	—	—	(76,159)
Repayment of loans by officers	—	—	5,530
Net cash (used in) provided by financing activities	(1,678)	198,085	(70,646)
(Decrease) increase in cash and cash equivalents	(15,422)	13,515	(77,627)
Cash and cash equivalents at beginning of period	28,867	—	88,627
Cash and cash equivalents at end of period	$ 13,445	$ 13,515	$ 11,000

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.

See 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 nine months 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 beginning January 31 through September 30, 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 September 28, 2008 (Successor) and our consolidated results of operations for the three months ended September 28, 2008 (Successor) and the three months ended September 30, 2007 (Successor) and our consolidated results of operations and cash flows for the nine months ended September 28, 2008 (Successor) and the period January 31, 2007 through September 30, 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" ("SFAS No. 157"). 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. The FASB issued FSP 157-1 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. In February 2008, the FASB issued FSP 157-2 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. 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:

In September 2006, the FASB issued 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; therefore, 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" ("SFAS No. 160") 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 that SFAS No. 160 will have on our consolidated financial statements.

FSP 142-3

In April 2008, the FASB issued FASB Staff Position No. FSP 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for the Company in the first quarter of 2009 and will be applied prospectively to future business combinations.

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 (as defined below). 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.

Senior Credit Facilities:

In connection with the Merger, we entered into senior secured credit facilities. The senior secured credit facilities provide 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.

There were $4.0 million letters of credit outstanding as of September 28, 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. On October 17, 2008, we borrowed $8 million under our senior secured revolving facility. The remaining borrowing availability is $13 million.

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	$ .4
2009	1.8
2010	1.8
2011	1.8
2012	1.8
2013 and thereafter	$323.1

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. We have not provided a valuation allowance for the deferred income tax asset since we believe it is more likely than not that the Company's earnings will be sufficient to ensure the realization of the deferred income tax asset for federal and state purposes.

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	Totals
		(In thousands)	
3rd Quarter 2008 (Successor)			
Total revenue	$ 87,483	$ 4,384	$ 91,867
Operating income before unallocated costs	7,664	3,389	11,053
Unallocated costs and expenses (2)			5,737
Operating income			$ 5,316
3rd Quarter 2007 (Successor)			
Total revenue	$ 87,047	$ 3,948	$ 90,995
Operating income before unallocated costs	11,330	2,718	14,048
Unallocated costs and expenses (2)			5,887
Operating income			$ 8,161
YTD 3rd Quarter 2008 (Successor)			
Total revenue	$ 248,379	$ 12,108	$260,487
Operating income before unallocated costs	16,700	8,729	25,429
Unallocated costs and expenses (2)			17,602
Operating income			$ 7,827
YTD 3rd Quarter 2007 (Combined) (4)			
Total revenue	$ 243,015	$ 11,060	$254,075
Operating income before unallocated costs	(3,776)	7,343	3,567
Unallocated costs and expenses (2)			17,507
Operating loss (3)			$ (13,940)
1/31/07 – 9/30/07 (Successor)			
Total revenue	$ 219,098	$ 10,067	$229,165
Operating income before unallocated costs	24,459	6,749	31,208
Unallocated costs and expenses (2)			15,062
Operating income			$ 16,146
1/1/07 – 1/30/07 (Predecessor)			
Total revenue	$ 23,917	$ 993	$ 24,910
Operating income before unallocated costs	(28,235)	594	(27,641)
Unallocated costs and expenses (2)			2,445
Operating loss (3)			$ (30,086)

(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.

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 September 28, 2008 and December 30, 2007 and unaudited statements of operations for the three months ended September 28, 2008 and the three months ended September 30, 2007 and our unaudited statement of operations and cash flows for the nine months ended September 28, 2008 and the period January 31 through September 30, 2007: (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 September 28, 2008
ASSETS
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 11,219	$ 1,659	$ 567	$ —	$ 13,445
Receivables					
Franchise	3,292	—	—	—	3,292
Other	2,545	939	405	(259)	3,630
	5,837	939	405	(259)	6,922
Inventories	1,146	1,579	130	—	2,855
Prepaid expenses	3,695	394	260	—	4,349
Deferred tax asset	4,315	—	—	—	4,315
Total current assets	26,212	4,571	1,362	(259)	31,886
Intercompany receivables	(25,975)	27,338	(1,637)	274	—
Investment in subsidiaries	66,329	—	274	(66,603)	—
Property and equipment, net	24,521	42,738	1,038	(230)	68,067
Goodwill	211,787	—	—	—	211,787
Trademarks	248,000	—	—	—	248,000
Other intangible assets	30,903	—	—	—	30,903
Deferred financing costs, net	9,227	—	—	—	9,227
Deferred tax asset	27,723	—	116	—	27,839
Other assets	912	180	—	(185)	907
Total assets	$619,639	$ 74,827	$ 1,153	$ (67,003)	$ 628,616

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Balance Sheet—Successor
As of September 28, 2008
LIABILITIES AND SHAREHOLDERS' EQUITY
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current liabilities:					
Accounts payable	$ 13,690	$ 242	$ 138	$ —	$ 14,070
Accrued expenses	20,891	1,892	1,695	(674)	23,804
Accrued interest payable	3,493	—	—	—	3,493
Due to former shareholders	2,340	—	—	—	2,340
Insurance premium financing	1,894	—	—	—	1,894
Current portion of debt	1,830	—	—	—	1,830
Total current liabilities	44,138	2,134	1,833	(674)	47,431
Deferred rent	538	3,946	—	—	4,484
Deferred tax liability	107,249	—	—	—	107,249
Due to former shareholders and other liabilities	12,261	1,738	—	—	13,999
Long-term debt	328,883	—	—	—	328,883
Shareholders' equity:					
Common stock, $.01 par value, 1000 shares authorized, 100 issued and outstanding	—	—	—	—	—
Additional paid-in capital	133,000	68,302	—	(68,302)	133,000
Currency translation adjustments	152	—	28	(28)	152
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
(Accumulated deficit) retained earnings	(6,277)	(1,293)	(708)	2,001	(6,277)
Total shareholders' equity	126,570	67,009	(680)	(66,329)	126,570
Total liabilities and shareholders' equity	$619,639	$ 74,827	$ 1,153	$ (67,003)	$ 628,616

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Balance Sheet—Successor
As of December 30, 2007
ASSETS
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
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	$630,484	$ 78,080	$ (205)	$ (71,588)	$ 636,771

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

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current liabilities:					
Accounts payable	$ 8,345	$ 191	$ 50	$ —	$ 8,586
Accrued expenses	21,157	1,466	(39)	—	22,584
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
Insurance premium financing	1,101	—	—	—	1,101
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 and other liabilities	8,101	1,951	—	—	10,052
Long-term debt	330,255	—	—	—	330,255
Shareholders' equity:					
Common stock, $.01 par value, 1000 shares authorized, 100 issued and 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
Total shareholders' equity	135,629	71,804	(216)	(71,588)	135,629
Total liabilities and shareholders' equity	$630,484	$ 78,080	$ (205)	$ (71,588)	$ 636,771

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations—Successor
For the nine months ended September 28, 2008
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	$107,306	$ 139,456	$ 1,617	$ —	$ 248,379
Franchise related income	12,108	—	—	—	12,108
Intercompany charges	15,495	(15,376)	(119)	—	—
Total revenues	134,909	124,080	1,498	—	260,487
Costs and expenses:					
Cost of food and paper products	26,708	29,732	543	—	56,983
Payroll and other employee benefits	29,012	41,302	546	—	70,860
Other operating costs	39,477	52,468	778	—	92,723
Other income, net	(620)	(2,119)	(46)	—	(2,785)
Depreciation and amortization	6,339	6,311	70	—	12,720
General and administrative	20,975	—	—	—	20,975
Asset impairment, restaurant closings	—	1,184	—	—	1,184
Total costs and expenses, net	121,891	128,878	1,891	—	252,660
Operating income (loss)	13,018	(4,798)	(393)	—	7,827
Other (expense) income:					
Interest expense	(21,581)	(1)	(35)	—	(21,617)
Interest income	130	2	—	—	132
Equity in net loss of unconsolidated affiliates	—	—	(185)	—	(185)
Net other (expense) income	(21,451)	1	(220)	—	(21,670)
Equity in loss of subsidiaries	(5,288)	—	—	5,288	—
(Loss) income before income taxes	(13,721)	(4,797)	(613)	5,288	(13,843)
Income tax benefit	(4,815)	—	(122)	—	(4,937)
Net (loss) income	$ (8,906)	$ (4,797)	$ (491)	$ 5,288	$ (8,906)

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations—Successor
For the period January 31—September 30, 2007
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	$ 96,799	$ 121,355	$ 944	$ —	$ 219,098
Franchise related income	10,067	—	—	—	10,067
Intercompany charges	16,324	(16,210)	(114)	—	—
Total revenues	123,190	105,145	830	—	229,165
Costs and expenses:					
Cost of food and paper products	21,542	22,843	236	—	44,621
Payroll and other employee benefits	25,226	34,627	239	—	60,092
Other operating costs	34,507	44,366	328	—	79,201
Other income, net	(138)	(1,771)	(15)	—	(1,924)
Depreciation and amortization	6,386	5,905	(2)	—	12,289
General and administrative	18,079	47	280	—	18,406
Asset impairment, restaurant closings	—	334	—	—	334
Total costs and expenses, net	105,602	106,351	1,066	—	213,019
Operating income (loss)	17,588	(1,206)	(236)	—	16,146
Other (expense) income:					
Interest expense	(21,036)	—	—	—	(21,036)
Interest income	446	15	—	—	461
Net other (expense) income	(20,590)	15	—	—	(20,575)
Equity in loss of subsidiaries	(1,427)	—	—	1,427	—
(Loss) income before income taxes	(4,429)	(1,191)	(236)	1,427	(4,429)
Income tax benefit	(1,940)	—	—	—	(1,940)
Net (loss) income	$ (2,489)	$ (1,191)	$ (236)	$ 1,427	$ (2,489)

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations—Successor
For the three months ended September 28, 2008
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	$38,413	$ 48,537	$ 533	$ —	$ 87,483
Franchise related income	4,384	—	—	—	4,384
Intercompany charges	3,778	(3,747)	(31)	—	—
Total revenues	46,575	44,790	502	—	91,867
Costs and expenses:					
Cost of food and paper products	9,433	10,614	168	—	20,215
Payroll and other employee benefits	9,905	14,066	161	—	24,132
Other operating costs	13,399	17,828	296	—	31,523
Other income, net	(57)	(825)	(2)	—	(884)
Depreciation and amortization	2,044	1,962	(20)	—	3,986
General and administrative	6,730	—	—	—	6,730
Asset impairment, restaurant closings	—	849	—	—	849
Total costs and expenses, net	41,454	44,494	603	—	86,551
Operating income (loss)	5,121	296	(101)	—	5,316
Other (expense) income:					
Interest expense	(6,563)	—	(9)	—	(6,572)
Interest income	25	—	—	—	25
Equity in net loss of unconsolidated affiliates	—	—	(57)	—	(57)
Net other (expense) income	(6,538)	—	(66)	—	(6,604)
Equity in loss of subsidiaries	251	—	—	(251)	—
(Loss) income before income taxes	(1,166)	296	(167)	(251)	(1,288)
Income tax expense (benefit)	8	—	(122)	—	(114)
Net (loss) income	$ (1,174)	$ 296	$ (45)	$ (251)	$ (1,174)

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations—Successor
For the three months ended September 30, 2007
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	$38,449	$ 48,181	$ 417	$ —	$ 87,047
Franchise related income	3,948	—	—	—	3,948
Intercompany charges	6,427	(6,377)	(50)	—	—
Total revenues	48,824	41,804	367	—	90,995
Costs and expenses:					
Cost of food and paper products	8,661	9,253	94	—	18,008
Payroll and other employee benefits	9,612	13,289	100	—	23,001
Other operating costs	13,081	17,385	131	—	30,597
Other income, net	(100)	(694)	1	—	(793)
Depreciation and amortization	2,445	2,309	(3)	—	4,751
General and administrative	7,032	13	100	—	7,145
Asset impairment, restaurant closings	—	125	—	—	125
Total costs and expenses, net	40,731	41,680	423	—	82,834
Operating income (loss)	8,093	124	(56)	—	8,161
Other (expense) income:					
Interest expense	(7,673)	—	—	—	(7,673)
Interest income	54	3	—	—	57
Net other (expense) income	(7,619)	3	—	—	(7,616)
Equity in income of subsidiaries	71	—	—	(71)	—
Income (loss) before income taxes	545	127	(56)	(71)	545
Income tax expense	42	—	—	—	42
Net income (loss)	$ 503	$ 127	$ (56)	$ (71)	$ 503

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Cash Flows—Successor
For the nine months ended September 28, 2008
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Operating Activities:					
Net (loss) income	$ (8,906)	$ (4,797)	$ (491)	$ 5,288	$ (8,906)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	6,339	6,311	70	—	12,720
Amortization of deferred financing costs	841	—	—	—	841
Increase in deferred rent, net	1,112	106	—	—	1,218
Asset impairment, restaurant closings/remodels	—	1,184	—	—	1,184
Deferred tax benefit	(5,854)	—	—	—	(5,854)
Equity in net loss of unconsolidated affiliates	—	—	185	—	185
Equity in loss of subsidiaries	5,288	—	—	(5,288)	—
Changes in operating assets and liabilities:					
Decrease (increase) in receivables	588	27	(457)	—	158
Decrease in inventories	164	152	17	—	333
Decrease in prepaid expenses	168	16	7	—	191
Increase in other assets	(25)	(86)	—	—	(111)
Increase (decrease) in accounts payable and accrued expenses	3,518	(621)	1,082	(674)	3,305
Decrease in accrued interest payable	(4,252)	—	—	—	(4,252)
Net cash (used in) provided by operating activities	(1,019)	2,292	413	(674)	1,012
Investing Activities:					
Purchases of property and equipment	(3,694)	(9,677)	—	—	(13,371)
Purchases of other locations	—	(1,261)	—	—	(1,261)
Investment in joint ventures	(124)	—	—	—	(124)
Net cash used in investing activities	(3,818)	(10,938)	—	—	(14,756)
Financing Activities:					
Repayment of secured term loan	(1,373)	—	—	—	(1,373)
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
Intercompany balances	(7,959)	7,412	(127)	674	—
Net cash (used in) provided by financing activities	(9,637)	7,412	(127)	674	(1,678)
Decrease in cash and cash equivalents	(14,474)	(1,234)	286	—	(15,422)
Cash and cash equivalents at beginning of period	25,693	2,893	281	—	28,867
Cash and cash equivalents at end of period	$ 11,219	$ 1,659	$ 567	$ —	$ 13,445

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Cash Flows—Successor
For the period January 31—September 30, 2007
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Operating Activities:					
Net (loss) income	$ (2,489)	$ (1,191)	$ (236)	$ 1,427	$ (2,489)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	6,386	5,905	(2)	—	12,289
Amortization of deferred financing costs	671	—	—	—	671
(Decrease) increase in deferred rent, net	(421)	1,479	—	—	1,058
Asset impairment, restaurant closings/remodels	—	334	—	—	334
Deferred tax benefit	(2,689)	—	—	—	(2,689)
Equity in earnings of subsidiaries	1,427	—	—	(1,427)	—
Changes in operating assets and liabilities, net of effects of merger:					
Decrease (increase) in receivables	1,279	312	(45)	—	1,546
Decrease (increase) in inventories	92	(7)	5	—	90
Decrease in prepaid expenses	924	308	—	—	1,232
Increase in other assets	(710)	(10)	—	—	(720)
Increase (decrease) in accounts payable and accrued expenses	9,340	(5,206)	70	—	4,204
Increase in accrued interest payable	3,890	—	—	—	3,890
Net cash provided by (used in) operating activities	17,700	1,924	(208)	—	19,416
Investing Activities:					
Purchases of property and equipment	(6,150)	(4,640)	(26)	—	(10,816)
Purchases of franchise locations	—	(4,790)	—	—	(4,790)
Investment in joint ventures	(380)	—	—	—	(380)
Net cash paid for merger, net of cash acquired	(188,000)	—	—	—	(188,000)
Net cash used in investing activities	(194,530)	(9,430)	(26)	—	(203,986)
Financing Activities:					
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)
Repayment of secured term loan	(915)	—	—	—	(915)
Intercompany balances	(9,866)	9,272	594	—	—
Net cash provided by financing activities	188,219	9,272	594	—	198,085
Increase in cash and cash equivalents	11,389	1,766	360	—	13,515
Cash and cash equivalents at beginning of period	—	—	—	—	—
Cash and cash equivalents at end of period	$ 11,389	$ 1,766	$ 360	$ —	$ 13,515

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;
- decrease in mall traffic, and other events arising from the downturn in the economy, such as continued increases in energy and commodity costs that negatively affect consumer spending;
- 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;
- changes in commodity and commodity related prices (particularly cheese and flour), 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 year to date third quarter 2008 is the nine months ended September 28, 2008 and the year to date third quarter 2007 is the combined Predecessor and Successor period of January 1, 2007 through September 30, 2007. The combined results of the Successor and Predecessor for the nine months ended September 30, 2007 do 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.

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 1,075 units in 43 countries, with 510 company-owned units, 551 franchised units and 14 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. 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.

Primarily in connection with our acquisition by MidOcean on January 31, 2007, we allocated a significant portion of the purchase price to intangible assets; goodwill of $212 million, tradename assets of $248 million and other indefinite lived intangibles of $26 million. The carrying value of these assets is subject to annual impairment reviews based on our estimates of the future cash flows as of the last day of our fiscal year. Interim impairment tests are performed, if deemed necessary, due to significant events or changes in circumstances that could negatively impact the carrying values of these assets. We have determined that there have been no such triggering events as of September 28, 2008 that would require us to perform an interim impairment test. The estimated future cash flows used in such impairment tests could be negatively impacted due to adverse macroeconomic factors such as reduced mall traffic during the holiday shopping season, a decline in consumer spending, or adverse changes in other cash flow assumptions which could result in potential impairment of the carrying value of such assets. For a discussion of the risks associated with an impairment charge, see Item 1A Risk Factors 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 9/28/08 (Successor)	3 months ended 9/30/07 (Successor)	9 months ended 9/28/08 (Successor)	9 months ended 9/30/07 (Combined)
Company-owned Sbarro restaurants:				
Open at beginning of period	509	498	506	485
Opened during period	3	3	11	13
Acquired from franchisees during period	1	—	2	11
Closed during period	(3)	(1)	(9)	(9)
Open at end of period	510	500	510	500
Franchised Sbarro restaurants:				
Open at beginning of period	546	499	524	478
Opened during period	22	17	70	57
Transferred to Sbarro during period	(1)	—	(2)	(11)
Closed during period	(16)	(8)	(41)	(16)
Open at end of period	551	508	551	508
Joint venture Sbarro restaurants:				
Open at beginning of period	9	1	7	—
Opened during period	5	2	7	3
Closed during period	—	—	—	—
Open at end of period	14	3	14	3
All restaurants:				
Open at beginning of period	1,064	998	1,037	963
Opened during period	30	22	88	73
Closed during period	(19)	(9)	(50)	(25)
Open at end of period	1,075	1,011	1,075	1,011

Seasonality

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

Financial Information (Dollars in millions)

	Three months ended September 28, 2008 (Successor)	Three months ended September 30, 2007 (Successor)	Nine months ended September 28, 2008 (Successor)	Nine months ended September 30, 2007 (Combined) (2)
Comparable sales-percentage change vs. prior comparable period [1]:				
QSR-owned locations	-1.0%	3.2%	-0.4%	3.0%
Franchise locations:				
Domestic Franchise	-2.0%	4.3%	-1.2%	4.5%
International Franchise	15.5%	6.6%	20.1%	5.8%
Franchised sales [3]	$ 104.9	$ 90.8	$ 287.3	$ 247.3
Cost of food and paper products as a percentage of restaurant sales	23.1%	20.7%	22.9%	20.2%
Payroll and other benefits as a percentage of restaurant sales	27.6%	26.4%	28.5%	27.5%
Other operating expense as a percentage of restaurant sales	36.0%	35.1%	37.3%	36.3%
General and administrative costs as a percentage of revenues	7.3%	7.9%	8.1%	8.4%
EBITDA [4]	$ 9.2	$ 12.9	$ 20.4	$ (0.4)

(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 nine months ended September 30, 2007 do 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) While we do not record franchised sales as revenues, we believe they are important in understanding our financial performance because these sales are the basis on which we calculate and record franchised royalties and are indicative of the financial health of the franchisee base.

(4) 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 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):

	Nine months ended September 28, 2008 (Successor)	Nine months ended September 30, 2007 (Combined)(*)	January 31-September 30, 2007 (Successor)	January 1-January 30, 2007 (Predecessor)	3 months ended September 28, 2008 (Successor)	3 months ended September 30, 2007 (Successor)
EBITDA	$ 20,362	$ (367)	$ 28,435	$ (28,802)	$ 9,245	$ 12,912
Interest Expense	(21,617)	(23,606)	(21,036)	(2,570)	(6,572)	(7,673)
Interest Income	132	569	461	108	25	57
Income Tax Benefit (Expense)	4,937	1,896	1,940	(44)	114	(42)
Depreciation and Amortization	(12,720)	(13,561)	(12,289)	(1,272)	(3,986)	(4,751)
Net (loss) income	$ (8,906)	$ (35,069)	$ (2,489)	$ (32,580)	$ (1,174)	$ 503

(*) The combined results of the Successor and Predecessor for the period in 2007 do 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. Included in the calculation of EBITDA for combined 2007 is $31.4 million related to a special event bonus.

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	Totals
	(In thousands)		
3rd Quarter 2008 (Successor)			
Total revenue	$ 87,483	$ 4,384	$ 91,867
Operating income before unallocated costs	7,664	3,389	11,053
Unallocated costs and expenses (2)			5,737
Operating income			$ 5,316
3rd Quarter 2007 (Successor)			
Total revenue	$ 87,047	$ 3,948	$ 90,995
Operating income before unallocated costs	11,330	2,718	14,048
Unallocated costs and expenses (2)			5,887
Operating income			$ 8,161
YTD 3rd Quarter 2008 (Successor)			
Total revenue	$ 248,379	$ 12,108	$260,487
Operating income before unallocated costs	16,700	8,729	25,429
Unallocated costs and expenses (2)			17,602
Operating income			$ 7,827
YTD 3rd Quarter 2007 (Combined) (4)			
Total revenue	$ 243,015	$ 11,060	$254,075
Operating income before unallocated costs	(3,776)	7,343	3,567
Unallocated costs and expenses (2)			17,507
Operating loss (3)			$ (13,940)
1/31/07 – 9/30/07 (Successor)			
Total revenue	$ 219,098	$ 10,067	$229,165
Operating income before unallocated costs	24,459	6,749	31,208
Unallocated costs and expenses (2)			15,062
Operating income			$ 16,146
1/1/07 – 1/30/07 (Predecessor)			
Total revenue	$ 23,917	$ 993	$ 24,910
Operating income before unallocated costs	(28,235)	594	(27,641)

Unallocated costs and expenses (2)	2,445
Operating loss (3)	$ (30,086)

(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)
(In thousands)

	GAAP	GAAP		"Combined"	GAAP	
	Nine months ended September 28, 2008 SUCCESSOR	For the period January 31 through September 30, 2007 SUCCESSOR	For the period January 1 through January 30, 2007 PREDECESSOR	Nine months ended September 30, 2007 *	Three months ended September 28, 2008 SUCCESSOR	Three months ended September 30, 2007 SUCCESSOR
Revenues:						
Restaurant sales	$ 248,379	$ 219,098	$ 23,594	$ 242,692	$ 87,483	$ 87,047
Franchise related income	12,108	10,067	993	11,060	4,384	3,948
Real estate	—	—	323	323	—	—
Total revenues	260,487	229,165	24,910	254,075	91,867	90,995
Costs and expenses:						
Cost of food and paper products	56,983	44,621	4,308	48,929	20,215	18,008
Payroll and other employee	70,860	60,092	6,762	66,854	24,132	23,001
Other operating costs	92,723	79,201	8,839	88,040	31,523	30,597
Other income, net	(2,785)	(1,924)	(497)	(2,421)	(884)	(793)
Depreciation and amortization	12,720	12,289	1,272	13,561	3,986	4,751
General and administrative	20,975	18,406	2,843	21,249	6,730	7,145
Special event bonuses	—	—	31,395	31,395	—	—
Asset impairment and restaurant closings/remodels	1,184	334	74	408	849	125
Total costs and expenses net	252,660	213,019	54,996	268,015	86,551	82,834
Operating income (loss)	7,827	16,146	(30,086)	(13,940)	5,316	8,161
Other (expense) income:						
Interest expense	(21,617)	(21,036)	(2,570)	(23,606)	(6,572)	(7,673)
Interest income	132	461	108	569	25	57
Equity in net (loss) income of unconsolidated affiliates	(185)	—	12	12	(57)	0
Net other expense	(21,670)	(20,575)	(2,450)	(23,025)	(6,604)	(7,616)
Income (loss) before income taxes	(13,843)	(4,429)	(32,536)	(36,965)	(1,288)	545
Income tax (benefit) expense	(4,937)	(1,940)	44	(1,896)	(114)	42
Net (loss) income	$ (8,906)	$ (2,489)	$ (32,580)	$ (35,069)	$ (1,174)	$ 503

* 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.

Third Quarter 2008 versus Third Quarter 2007

Restaurant sales increased by .6% to $87.5 million for the three months ended September 28, 2008 compared to $87.0 million for the three months ended September 30, 2007. The increase in sales is due to sales generated by new stores opened in 2007 and 2008 of $2.3 million offset by stores closed of $1.2 million and a decrease in comparable unit sales of 1% in our QSR restaurants.

Franchise related income increased to $4.4 million for the third quarter of 2008 from $3.9 million for the third quarter of 2007 due to royalties on new international stores opened in 2007 and 2008 of $.3 million and royalties on increased international comparable unit sales of $.2 million, and fees on international and domestic store openings of $.1 million partially offset by the loss of royalties on international stores closed of $.1 million. Royalties on new domestic franchise units were offset by royalties on closed domestic stores and the decline in comparable unit sales.

Cost of food and paper products as a percentage of restaurant sales increased to 23.1% for the third quarter of 2008 compared to 20.7% for the third quarter of 2007. The cost of cheese in the third quarter of 2008 averaged $2.26 per pound compared to an average of $2.16 per pound in the third quarter of 2007. This $.10 per pound increase in cheese costs accounted for $.2 million or .2% of the total percentage of restaurant sales increase. The cost of flour in the third quarter of 2008 averaged $.47 compared to $.20 in the third quarter of 2007. The $.27 per pound increase accounted for $1.0 million or 1.1% of the total percentage of restaurant sales increase. The remaining 1.1% increase as a percentage of restaurant sales relates to fuel surcharges and cost increases on other products including pasta, oil, sausage and pepperoni.

Payroll and other employee benefits as a percentage of restaurant sales increased to 27.6% in the third quarter of 2008 from 26.4% in the third quarter of 2007. The increase is primarily related to higher wages, including minimum wage increases, while comparative unit sales declined 1% from the prior year.

Other operating costs as a percentage of restaurant sales increased to 36.0% in the third quarter of 2008 as compared to 35.1% in the third quarter of 2007. The increase is primarily due to expected increases in occupancy related charges offset by reductions in operating costs in response to the decline in comparable unit sales of 1% from the prior year.

Depreciation and amortization was $4.0 million for the third quarter of 2008 as compared to $4.8 million in the third quarter of 2007. The $.8 million decrease is due to fully depreciated assets offset by depreciation on new stores opened.

General and administrative expenses decreased slightly to $6.7 million in the third quarter 2008 as compared to $7.1 million in the third quarter of 2007. The decrease is primarily due to severance charges in 2007 relating to management realignment and cost reductions implemented in 2008.

Interest expense of $6.6 million for the third quarter of 2008 and $7.7 million for the third quarter of 2007 relates primarily to the Senior Notes and the Term Loan under our Senior Credit Facility. The decrease in interest expense is due to a decrease in the interest rate on the Term Loan. Included in interest expense in the third quarter of 2008 and the third quarter of 2007 was the amortization of deferred financing costs for the Senior Notes and Term Loan of $.3 million and $.1 million, respectively.

Equity in net loss of unconsolidated affiliates relates to our joint venture in Beirut.

In our Successor period after January 31, 2007, we are taxed as a C Corporation. The income tax benefit was $.1 million for the third quarter of 2008 and income tax expense was $.1 million for the third quarter of 2007.

Net loss was $1.2 million for the third quarter of 2008 as compared to a net income of $.5 million in the third quarter of 2007. The increase in net loss is due to the items discussed above, primarily increased costs, as well as a decline in comparable sales of 1% offset by stores opened in 2007 and 2008.

Year to Date 2008 Versus 2007

Restaurant sales increased by 2.3% to $248.4 million for the nine months ended September 28, 2008 compared to $242.7 million for the combined nine months ended September 30, 2007. The increase in sales is due to sales generated by new stores opened in 2007 and 2008 of $9.5 million offset by stores closed of $3.6 million and a decrease in comparable unit sales of .4%.

Franchise related income increased to $12.1 million for the first nine months of 2008 compared to $11.1 million in the combined first nine months of 2007 due to royalties on increased international comparable unit sales of $.7 million and new international stores opened in 2007 and 2008 of $.9 million, partially offset by the loss of royalties on international and domestic stores closed of $.7 million. Royalties on new domestic franchise units were $.2 million offset by a decline in royalties on domestic comparable unit sales of $.1 million.

Cost of food and paper products as a percentage of restaurant sales increased to 22.9% for first nine months of 2008 compared to 20.2% for the combined first nine months of 2007. The cost of cheese in the first nine months of 2008 averaged approximately $2.18 per pound compared to an average of approximately $1.82 per pound in the combined nine months of 2007. This $.36 per pound increase in cheese costs accounted for $2.0 million or .8% of the total percentage of restaurant sales increase**.** The cost of flour in the first nine months of 2008 averaged $.43 compared to $.20 in the combined first nine months of 2007. The $.23 per pound increase accounted for $2.4 million or 1.0% of the total percentage of restaurant sales increases. The remaining .9% increase as a percentage of restaurant sales relates to fuel surcharges and cost increases on other products including pasta, oil, sausage and pepperoni.

Payroll and other employee benefits as a percentage of restaurant sales increased to 28.5% for the first nine months of 2008 compared to 27.5% in the combined first nine months of 2007. The increase is primarily related to higher wages, including minimum wage increases and increased staffing levels at some stores, while sales remained relatively flat.

Other operating costs as a percentage of restaurant sales increased to 37.3% in the first nine months of 2008 compared to 36.3% in the combined first nine months of 2007. The increase is primarily due to expected increases in occupancy related charges offset by reductions in operating costs in response to sales remaining relatively flat.

Other income, net was $2.8 million for the first nine months of 2008 compared to $2.4 million in the combined first nine months of 2007. The increase is primarily due to an increase in certain rebates we received based on our franchisees' level of purchases.

Depreciation and amortization decreased to $12.7 million in first nine months of 2008 compared to $13.6 million for the combined first nine months of 2007. The $.9 million decrease is due to fully depreciated assets offset by depreciation on new stores opened.

General and administrative expenses remained relatively flat at $21.0 million in the first nine months 2008 as compared to $21.2 million in the combined first nine months of 2007.

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

Interest expense of $21.6 million for the first nine months of 2008 and $23.6 million for the combined first nine months of 2007 relates primarily to the Senior Notes and the Term Loan under our Senior Credit Facility. The decrease in interest expense is due to a decrease in the interest rate on the Term Loan. Included in interest expense in the first nine months of 2008 and 2007 was the amortization of deferred financing costs for the Senior Notes and Term Loan of $.8 million and $.7 million, respectively. In our Predecessor period in 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 the mortgage loan and interests in our corporate headquarters were transferred to a company owned by certain of our former shareholders.

Equity in net loss of unconsolidated affiliates relates to our joint venture in Beirut.

In our Successor period after January 31, 2007, we are taxed as a C Corporation. The income tax benefit was $4.9 million for the first nine months of 2008 and our effective tax rate was 35.7%. The income tax benefit was $1.9 million for the period January 31 through September 30, 2007 (Successor) and our effective tax rate was 43.8% 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.

Net loss was $8.9 million for the first nine months of 2008 as compared to a $35.1 million net loss in the combined first nine months of 2007. Included in the combined first nine months of 2007 net loss was $31.4 attributable to special event bonuses in connection with the Merger. After adjusting for the special event bonuses, the increase in the net loss is due to the items discussed above, primarily an increase in costs while comparable sales remained relatively flat.

Currency translation adjustment primarily relates to our company-owned store in Canada and our consolidated joint venture in India.

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. Our primary source of liquidity will continue to be cash flow from operations and borrowings available under our revolver. We expect these sources will fund our ongoing requirements for working capital and capital expenditures.

Cash flow generated during our fourth quarter is critical to achieving positive annual operating cash flow. Adverse macroeconomic factors, such as reduced mall traffic during the holiday shopping season and a decline in consumer spending among other factors, could negatively impact achieving our projected operating cash flow for the fourth quarter and year.

Our ability to borrow funds under our revolver is subject to our continued compliance with our debt covenant requirements during future quarters. Such covenants include minimum cash interest coverage ratio and a maximum net leverage ratio. As of September 28, 2008, we are in compliance with these covenants. Beginning in the fourth quarter ending December 28, 2008, certain covenants become more restrictive. Our results for the year are highly dependent upon the holiday shopping period between Thanksgiving and New Year's Day. Current economic uncertainty surrounding our fourth quarter projections which, together with our year to date results, could impact our compliance with these more restrictive covenants and cause us not to be in compliance.

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 $28 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. In the first nine months of 2008, we purchased four QSR locations for approximately $1.3 million and we repaid $1.4 million in principal per the terms of our Term Loan. On October 17, 2008, we borrowed $8 million under our senior secured revolving facility. The remaining borrowing availability is $13 million. We believe that aggregate capital expenditures for all of 2008 will approximate $16 million which we expect will be funded with operating cash. Based upon our projected cash requirements for operations, we believe we have adequate resources to fund operations, working capital needs, capital expenditures, debt servicing requirements and other cash needs for the next twelve months based upon current cash balances and the availability under the revolving credit facility. If necessary, we may adjust the rate of capital expenditures, acquisitions, or the timing and magnitude of other controllable expenditures to meet such requirements.

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 at the end of the first nine months of 2008 and 2007 and the sources and uses of our cash flows during the first nine months of each of those years (in millions):

	September 28, 2008	December 30, 2007
Liquidity at the end of period		
Cash and cash equivalents	$ 13.4	$ 28.9
Working capital	(15.5)	(4.9)

	Nine Months Ended September 28, 2008 (Successor)	Period Jan. 31 - September 30, 2007 (Successor)	Period Jan. 1 - Jan. 30, 2007 (Predecessor)
Net cash flows			
Provided by (used in) operating activities	$ 1.0	$ 19.4	$ (5.3)
Used in investing activities	(14.7)	(204.0)	(1.7)
(Used in) provided by financing activities	(1.7)	198.1	(70.6)
Net (decrease) increase in cash	$ (15.4)	$ 13.5	$ (77.6)

We have not historically required significant working capital to fund our existing operations and have financed our capital expenditures and investments in joint ventures and other acquisitions 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. The decline in working capital resulted primarily from lower earnings from operations in the first nine months of 2008, as well as a decline in cash resulting from interest payments, debt repayments and capital expenditures. Cash flow from current operations and our line of credit support our working capital needs.

Net cash provided by operating activities was $1.0 million during the nine months ended September 28, 2008 and primarily related to the net loss of $8.9 million offset by $10.3 million in non-cash activities combined with a $.4 million decrease in operating assets and liabilities. Net cash provided by operating activities was $19.4 million in the Successor period January 31 through September 30, 2007 and $5.3 million net cash was used in operating activities in the Predecessor period January 1 through January 30, 2007.

Net cash used in investing activities of $14.7 million for the nine months ended September 28, 2008 was mostly related to capital expenditures utilized primarily for restaurant openings and renovation activity. Net cash used in investing activities was $204.0 million for the Successor period January 31 through September 30, 2007, the majority of which was $188 million net cash paid for the Merger and $10.8 million for capital expenditures. Net cash used in investing activities was $1.7 million for the Predecessor period January 1 through January 30, 2007.

The cash used in financing activities was $1.7 million for the nine months ended September 28, 2008 which was primarily for principal payments on our Term Loan. The net cash provided by financing activities for the Successor period January 31 through September 30, 2007 was $198.1 million and represents proceeds from injected capital, the proceeds from the new debt, less 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 nine months ended September 28, 2008, there were no changes in the accounting policies whose application may have a 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.

Goodwill and Other Intangible Assets

Primarily in connection with our acquisition by MidOcean on January 31, 2007, we allocated a significant portion of the purchase price to intangible assets; goodwill of $212 million, tradename assets of $248 million and other indefinite lived intangibles of $26 million. The carrying value of these assets is subject to annual impairment reviews based on our estimates of the future cash flows as of the last day of our fiscal year. Interim impairment tests are performed, if deemed necessary, due to significant events or changes in circumstances that could negatively impact the carrying values of these assets. We have determined that there have been no such triggering events as of September 28, 2008 that would require us to perform an interim impairment test. The estimated future cash flows used in such impairment tests could be negatively impacted due to adverse macroeconomic factors such as reduced mall traffic during the holiday shopping season, a decline in consumer spending, or adverse changes in other cash flow assumptions which could result in potential impairment of the carrying value of such assets. For a discussion of the risks associated with an impairment charge, see Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 30, 2007.

There are inherent assumptions and estimates used in developing future cash flows requiring management's judgment in applying these estimates to the discounted cash flow model we utilize to estimate fair value, including the projection of revenues, interest rates, the cost of capital and income tax rates. Financial results achieved during our fourth quarter are critical to our profitability and operating cash flow for the year. Many of the factors used in assessing fair value are outside the control of management and it is possible that assumptions and estimates will change in future periods. These changes can result in future impairments.

Recent Accounting Pronouncements

During the nine months ended September 28, 2008, there were no recent accounting pronouncements that had a material effect on our consolidated financial statements. Refer to *Note 2 – Recent Accounting Pronouncements* to our unaudited consolidated financial statements for further discussion.

Certain Relationships and Related Transactions

As of September 28, 2008, our consolidated joint venture has a loan payable to a company related to a shareholder of the joint venture for $.6 million.

We loaned Holdings $.3 million and recorded this amount as a reduction of equity. Holdings and the Company entered into a professional services agreement with MidOcean US Advisor, LP, an affiliate of MidOcean ("MidOcean Advisor"). The professional services agreement provides that MidOcean Advisor will have the right to receive from the Company an annual management fee of $1.0 million and reimbursement of expenses reasonably incurred by it for providing management and other similar services to the Company each year.

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.

We have not purchased future, forward, option or other instruments to hedge against fluctuations in the prices of commodities. 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 that we purchase.

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.

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 the 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 l934, 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 Exchange Act 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 been no 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 September 28, 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

Exhibit Number	Description
*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).
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.

* 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.

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: November 10, 2008	By: /s/ Peter Beaudrault Peter Beaudrault, Chairman of the Board of Directors, President and Chief Executive Officer
Date: November 10, 2008	By: /s/ Anthony J. Puglisi Anthony J. Puglisi Vice President, Chief Financial Officer and Principal Accounting Officer

EXHIBIT INDEX

Item 6. Exhibits

Exhibit Number	Description
*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).
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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.

Exhibit 31.01

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: November 10, 2008

/s/ Peter Beaudrault
Peter Beaudrault
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

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: November 10, 2008

/s/ Anthony J. Puglisi

Anthony J. Puglisi
Vice President and Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.01

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 September 28, 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: November 10, 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.

Exhibit 32.02

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 September 28, 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: November 10, 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.