
**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 27, 2009

Commission file number 333-142081

SBARRO, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of incorporation or organization)

11-2501939

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

401 Broad Hollow Road, Melville, New York

(Address of principal executive offices)

11747-4714

(Zip Code)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 12, 2009 was 100.

SBARRO, INC.
FORM 10-Q INDEX

	PAGES
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Financial Statements (unaudited):</u>	
<u>Balance Sheets (unaudited)—September 27, 2009 and December 28, 2008</u>	3-4
<u>Statements of Operations (unaudited)— Nine months ended September 27, 2009 and September 28, 2008 and the quarter ended September 27, 2009 and September 28, 2008</u>	5-6
<u>Statement of Shareholders' Equity (unaudited)—Nine months ended September 27, 2009</u>	7
<u>Statements of Cash Flows (unaudited)— Nine months ended September 27, 2009 and September 28, 2008</u>	8
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4T. <u>Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults Upon Senior Securities</u>	40
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41

Part I – Financial Information

Item 1. Consolidated Financial Statements

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

	<u>September 27, 2009</u>	<u>December 28, 2008</u>
Current assets:		
Cash and cash equivalents	\$ 13,456	\$ 38,286
Receivables, net of allowance for doubtful accounts of \$1,145 and \$446 at September 27, 2009 and December 28, 2008:		
Franchise	3,564	3,845
Other	2,999	3,948
	<u>6,563</u>	<u>7,793</u>
Inventories	2,588	3,083
Prepaid expenses	2,216	2,953
Total current assets	<u>24,823</u>	<u>52,115</u>
Property and equipment, net	59,889	65,640
Intangible assets:		
Goodwill	194,786	201,460
Trademarks	173,100	195,000
Other intangible assets, net	19,710	23,539
Deferred financing costs, net	9,334	8,934
Other assets	1,326	1,080
Total assets	<u>\$ 482,968</u>	<u>\$ 547,768</u>

See notes to unaudited consolidated financial statements.

SBARRO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)
(In thousands except share data)
(CONTINUED)

	<u>September 27, 2009</u>	<u>December 28, 2008</u>
Current liabilities:		
Accounts payable	\$ 6,640	\$ 11,621
Accrued expenses	22,309	22,972
Accrued interest payable	3,340	7,291
Due to former shareholders	—	2,993
Insurance premium financing	—	1,087
Current portion of debt	—	3,958
Total current liabilities	<u>32,289</u>	<u>49,922</u>
Deferred rent	6,047	5,189
Deferred tax liability	77,323	87,238
Due to former shareholders & other	12,258	11,043
Accrued interest payable	2,008	—
Long-term debt	336,032	346,297
Commitments and contingencies		
Shareholders' equity:		
Common stock		
Authorized 1,000 shares; \$.01 par value issued and outstanding 100 shares at September 27, 2009 and December 28, 2008	—	—
Additional paid-in capital	133,000	133,000
Additional paid-in capital warrants	6,340	—
Currency translation adjustments	172	135
Advances to MidOcean SBR Holdings	(305)	(305)
Accumulated deficit	(125,339)	(88,639)
Total shareholders' equity	<u>13,868</u>	<u>44,191</u>
Noncontrolling interests	<u>3,143</u>	<u>3,888</u>
Total shareholders' equity, including noncontrolling interests	<u>17,011</u>	<u>48,079</u>
Total liabilities and shareholders' equity	<u>\$ 482,968</u>	<u>\$ 547,768</u>

See notes to unaudited consolidated financial statements.

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

	For the nine months ended <u>September 27, 2009</u>	For the nine months ended <u>September 28, 2008</u>
Revenues:		
Restaurant sales	\$ 235,083	\$ 248,379
Franchise related income	10,162	12,108
Total revenues	<u>245,245</u>	<u>260,487</u>
Costs and expenses:		
Cost of food and paper products	48,117	56,983
Payroll and other employee benefits	66,047	70,860
Other operating costs	89,915	92,398
Other income, net	(2,885)	(2,785)
Depreciation and amortization	12,297	12,720
General and administrative	22,612	20,975
Goodwill & other intangible asset impairment	31,474	—
Asset impairment, restaurant closings/remodels	2,305	1,184
Total costs and expenses, net	<u>269,882</u>	<u>252,335</u>
Operating (loss) income	<u>(24,637)</u>	<u>8,152</u>
Other (expense) income:		
Interest expense	(20,747)	(21,617)
Write-off of deferred financing costs	(423)	—
Interest income	33	132
Net other expense	<u>(21,137)</u>	<u>(21,485)</u>
Loss before income taxes and equity investments	<u>(45,774)</u>	<u>(13,333)</u>
Income tax benefit	<u>(9,480)</u>	<u>(4,937)</u>
Loss before equity investments	<u>(36,294)</u>	<u>(8,396)</u>
Loss from equity investments	<u>(162)</u>	<u>(185)</u>
Net loss	<u>(36,456)</u>	<u>(8,581)</u>
Less: Net income attributable to noncontrolling interests	<u>(244)</u>	<u>(325)</u>
Net loss attributable to Sbarro, Inc.	<u>\$ (36,700)</u>	<u>\$ (8,906)</u>

See notes to unaudited consolidated financial statements.

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

	For the three months ended September 27, 2009	For the three months ended September 28, 2008
Revenues:		
Restaurant sales	\$ 82,141	\$ 87,483
Franchise related income	3,388	4,384
Total revenues	<u>85,529</u>	<u>91,867</u>
Costs and expenses:		
Cost of food and paper products	16,988	20,215
Payroll and other employee benefits	23,260	24,132
Other operating costs	30,341	31,446
Other income, net	(865)	(884)
Depreciation and amortization	3,830	3,986
General and administrative	6,786	6,730
Goodwill & other intangible asset impairment	31,474	—
Asset impairment, restaurant closings/remodels	309	849
Total costs and expenses, net	<u>112,123</u>	<u>86,474</u>
Operating (loss) income	<u>(26,594)</u>	<u>5,393</u>
Other (expense) income:		
Interest expense	(7,414)	(6,572)
Interest income	—	25
Net other expense	<u>(7,414)</u>	<u>(6,547)</u>
Loss before income taxes and equity investments	(34,008)	(1,154)
Income tax benefit	(9,752)	(114)
Loss before equity investments	(24,256)	(1,040)
Loss from equity investments	(54)	(57)
Net loss	(24,310)	(1,097)
Less: Net income attributable to noncontrolling interests	(211)	(77)
Net loss attributable to Sbarro, Inc.	<u>\$ (24,521)</u>	<u>\$ (1,174)</u>

See notes to unaudited consolidated financial statements.

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

	Common Stock		Additional paid-in capital	Additional paid-in capital - warrants	Advances to MidOcean SBR Holdings	Accumulated Deficit	Accumulated Other Comprehensive Income (b)	Noncontrolling Interest	Total
	Number of Shares	Amount							
Balance at December 28, 2008	100	\$ —	\$133,000	\$ —	\$ (305)	\$ (88,639)	\$ 135	\$ 3,888	\$ 48,079
Components of comprehensive income (loss):									
Net (loss) income			—	—	—	(36,700)	—	244	(36,456)
Currency translation adjustments			—	—	—	—	37	(21)	16
Comprehensive income (loss) (a)									(36,440)
Additional paid-in capital warrants			—	6,340	—	—	—	—	6,340
Capital contribution from noncontrolling interest			—	—	—	—	—	394	394
Distribution of earnings & return of capital			—	—	—	—	—	(988)	(988)
Short-term loan payment			—	—	—	—	—	(374)	(374)
Balance at September 27, 2009	100	\$ —	\$133,000	\$ 6,340	\$ (305)	\$ (125,339)	\$ 172	\$ 3,143	\$ 17,011

(a) The components of comprehensive income (loss) are as follows:

	Quarter ended Sept 27, 2009	Quarter ended Sept 28, 2008	Year to date Sept 28, 2008
Net loss (including noncontrolling interests)	\$ (24,310)	\$ (1,097)	\$ (8,581)
Currency translation adjustments	(56)	40	(4)
	(24,366)	(1,057)	(8,585)
Less: comprehensive income attributable to noncontrolling interests	160	122	352
Comprehensive income - Sbarro, Inc.	\$ (24,526)	\$ (1,179)	\$ (8,937)

(b) The components of accumulated other comprehensive income are as follows:

	Sept 27, 2009	December 28, 2008
Currency translation adjustments	\$ 191	\$ 175
Less: noncontrolling interests - currency translation adjustments	19	40
Accumulated other comprehensive income - Sbarro, Inc.	\$ 172	\$ 135

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 27, 2009	For the nine months ended September 28, 2008
Operating Activities:		
Net loss	\$ (36,456)	\$ (8,581)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Goodwill & other intangible asset impairment	31,474	—
Depreciation and amortization	12,297	12,720
Amortization of deferred financing costs	1,084	841
Provision for doubtful accounts receivable	916	—
Increase in deferred rent, net of tenant allowance	1,404	1,218
Asset impairment and restaurant closings/remodels	1,100	1,184
Change in deferred income taxes, net	(9,915)	(5,854)
Write-off of deferred financing costs	423	—
Equity in net loss of unconsolidated affiliates	162	185
Changes in operating assets and liabilities:		
Decrease in receivables	54	158
Decrease in inventories	495	333
(Increase) decrease in prepaid expenses	(350)	191
Increase in other assets	(86)	(111)
(Decrease) increase in accounts payable, accrued expenses & other liabilities	(8,278)	4,036
Decrease in accrued interest payable	(1,941)	(4,252)
Net cash (used in) provided by operating activities	<u>(7,617)</u>	<u>2,068</u>
Investing Activities:		
Purchases of property and equipment	(6,277)	(13,371)
Purchase of franchises and other locations	—	(1,261)
Investment in joint ventures	(283)	(124)
Net cash used in investing activities	<u>(6,560)</u>	<u>(14,756)</u>
Financing Activities:		
Proceeds from second lien	25,000	—
Debt issue and credit amendment costs	(1,834)	—
Repayment of secured term loan and revolver	(32,958)	(1,373)
Advances to MidOcean SBR Holdings	—	(305)
Capital contribution from noncontrolling interests	394	480
Repayment of short-term loan to noncontrolling interests	(374)	(614)
Distribution of earnings to noncontrolling interests	(881)	(922)
Net cash used in financing activities	<u>(10,653)</u>	<u>(2,734)</u>
Decrease in cash and cash equivalents	(24,830)	(15,422)
Cash and cash equivalents at beginning of period	38,286	28,867
Cash and cash equivalents at end of period	<u>\$ 13,456</u>	<u>\$ 13,445</u>

See notes to unaudited consolidated financial statements.

SBARRO INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

1. Description of business:

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 76% of Holdings and 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.

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 27, 2009, and our consolidated results of operations for the three months ended September 27, 2009 and September 28, 2008 and our consolidated results of operations and cash flows for the nine months ended September 27, 2009 and September 28, 2008 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 28, 2008.

Subsequent Events

The Company evaluated subsequent events through November 12, 2009, which is the date the financial statements were issued. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to November 12, 2009 that would have a material impact on our financial statements.

Liquidity

We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on indebtedness incurred in connection with the Merger and from funding our costs of operations, working capital and capital expenditures. Cash flow generated during our fourth quarter is critical to achieving positive annual operating cash flow. Adverse macroeconomic factors, including reduced mall traffic during the holiday shopping season, and a decline in consumer spending, among other factors, may negatively impact achieving our projected operating cash flow.

Our ability to borrow funds under our revolver is subject to our compliance with our debt covenant requirements. Prior to the amendment to our Senior Credit Facilities, such covenants included an interest coverage ratio and a total net leverage ratio. As of year end, we were in violation of our total net leverage ratio covenant under the credit agreement governing our Senior Credit Facilities. On March 26, 2009, we entered into an amendment to the Senior Credit Facilities. The amendment permitted the Company to refinance a portion of our Term Loan by entering into a new Second Lien Facility, permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, replaced our total net leverage ratio covenant and interest coverage ratio covenant with a minimum EBITDA covenant and a maximum capital expenditure covenant, increased the margin on our Term Loan and Revolving Facility by 200 basis points, required prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility, required prepayment of \$3.5 million of the Revolving Facility from cash on hand and simultaneously reduced the Revolving Facility’s amount outstanding and commitment to \$21.5 million, and restricted payment of MidOcean’s annual management fee so that such fee will accrue but not be paid until the Company’s EBITDA is at least \$55.0 million and, after such goal is obtained, then a maximum of \$2.0 million of such fees may be paid each year. See Note 3—Long-Term Debt for additional information regarding the amendment to the Senior Credit Facilities and the new Second Lien Facility.

In response to the economic downturn in 2008, we began to implement aggressive strategic initiatives to reduce costs and improve our liquidity. These initiatives, which are ongoing, include closing unprofitable stores, renegotiating store lease terms, reducing headcount, revising our recipes without affecting our customers, as well as other expense controls. We believe these actions will enhance our liquidity going forward and will enable us to be in compliance with our debt covenants under the amended credit agreement and that cash generated from operations, together with cash on hand and amounts available under the Senior Credit Facilities, will be adequate to permit us to meet our debt service obligations, ongoing costs of operations, working capital needs and

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

capital expenditure requirements for at least the next year. Our future financial and operating performance, ability to service or refinance our debt and ability to comply with covenants and restrictions contained in our debt agreements will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Certain reclassifications have been made to the prior periods' financial statements to conform to current classifications as a result of the Company's adoption of "Non Controlling Interests in Consolidated Financial Statements" as discussed in Note 2 below.

2. Recent Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board ("FASB") issued "Fair Value Measurements." This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. It 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 this statement to exclude a prior FASB statement and its related interpretive accounting pronouncements that address leasing transactions. In October 2008, the FASB issued an additional clarification of the application of "Fair Value Measurements" in an inactive market that illustrates how an entity would determine fair value when the market for a financial asset is not active. We adopted this statement which did not have a material effect on our consolidated financial statements.

In December 2007, the FASB issued "Business Combinations," which is effective for annual periods beginning on or after December 15, 2008. The FASB retained the fundamental requirements 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. We evaluated this statement but we did not have any business combinations; therefore, the adoption had no impact on our consolidated financial statements.

In December 2007, the FASB issued "Noncontrolling Interests in Consolidated Financial Statements," which is effective for fiscal years beginning on or after December 15, 2008. This 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. On December 29, 2008, we adopted this statement and presented noncontrolling interests as a component of equity, a separate net income attributable to/from noncontrolling interests and a classification of distributions to/from noncontrolling interests in the consolidated financial statements. Prior period amounts have been reclassified to conform with the current presentation. The adoption of this statement did not have any other material impacts on our consolidated financial statements.

In April 2009, the FASB issued "Recognition and Presentation of Other-Than-Temporary Impairments." This provides new guidance on the recognition and presentation of an other-than-temporary impairment for debt securities classified as available-for-sale and held-to-maturity and provides some new disclosure requirements for both debt and equity securities. It is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted this statement which did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly." This provides additional guidance for estimating the fair value of assets and liabilities within the scope of "Fair Value Measurements" in markets that have experienced a significant reduction in volume and activity in relation to normal activity. It is effective for interim and annual periods ending after June 15, 2009. We adopted this statement which did not have a material effect on our consolidated financial statements.

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

In April 2009, the FASB issued "Interim Disclosures About Fair Value of Financial Instruments." This amends, "Disclosures about Fair Values of Financial Instruments," and "Interim Financial Reporting," and requires disclosures about fair value of financial instruments in interim financial statements. It is effective for interim periods ending after June 15, 2009. We adopted the disclosure requirements of this statement.

In May 2009, the FASB issued, "Subsequent Events." This standard provides guidance on management's assessment of subsequent events, which are defined as events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This standard also requires disclosure of the date through which subsequent events have been evaluated and whether that is the date that the financial statements were issued or available to be issued. This standard is effective for interim or annual fiscal periods ending after June 15, 2009. We adopted this statement which did not have an impact on our consolidated financial statements.

In June 2009, the FASB issued "Amendments to FASB Interpretation No. 46(R)." This statement amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. We are evaluating the impact that this statement will have on our consolidated financial results.

In June 2009, FASB issued "FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This standard replaces "The Hierarchy of Generally Accepted Accounting Principles," and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"): authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of fiscal 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on our consolidated financial statements.

3. Long Term Debt:

Indenture:

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

The Senior Notes are senior unsecured obligations of ours and are guaranteed by all of our current and future domestic subsidiaries and rank equally in right of payment with all existing and future senior indebtedness of ours. The Senior Notes are effectively subordinated to all secured indebtedness of ours to the extent of the collateral securing such indebtedness, including the Senior Credit Facilities and Second Lien Facility (both 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.

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

Senior Credit Facilities:

In connection with the Merger, we entered into senior secured credit facilities. The senior secured credit facilities originally provided for loans of \$208.0 million under a \$183.0 million senior secured term loan facility (the "Term Loan") and a \$25.0 million senior secured revolving facility (the "Revolving Facility," and collectively with the Term Loan, 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 connection with the Merger, we borrowed the entire \$183.0 million available under the Term Loan. On October 17, 2008 and November 18, 2008, we borrowed \$8.0 million and \$12.0 million, respectively, and we repaid \$3.5 million and \$4.0 million on March 26, 2009 and June 1, 2009, respectively, under the Revolving Facility. The Term Loan matures in 2014 and the Revolving Facility is scheduled to terminate and come due in 2013.

On March 26, 2009, we entered into an amendment to the Senior Credit Facilities. The amendment permitted the Company to refinance a portion of the Term Loan by entering into a new Second Lien Facility (defined and discussed below), permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, permanently replaced our total net leverage ratio covenant and interest coverage ratio covenant with a minimum EBITDA covenant and a maximum capital expenditure covenant, increased the margin on our Term Loan and Revolving Facility by 200 basis points, required prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility, required prepayment of \$3.5 million of the Revolving Facility from cash on hand and simultaneously reduced the Revolving Facility's amount outstanding and commitment to \$21.5 million, and restricted payment of MidOcean's annual management fee so that such fee will accrue but not be paid until the Company's EBITDA is at least \$55.0 million and, after such goal is obtained, then a maximum of \$2.0 million of such fees may be paid each year. In the first quarter of 2009, we wrote off \$4 million of deferred financing costs related to the prepayment of the Term Loan. On June 1, 2009, we repaid \$4.0 million of the Revolving Facility. There were \$3.6 million of letters of credit outstanding as of September 27, 2009. The letters of credit were 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. As a result, as of September 27, 2009, our remaining borrowing availability under the Senior Credit Facilities was \$5.4 million.

In general, borrowings under the Senior Credit Facilities bear interest based, at our option, at either the LIBOR rate or an alternate base rate ("ABR"), in each case plus a margin. Our rate of interest for borrowings under the Senior Credit Facilities, as amended, is LIBOR plus 4.50% or ABR plus 3.50%. 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, as amended, requires compliance with certain financial and operating covenants, including a minimum EBITDA covenant and a maximum capital expenditure covenant.

Second Lien Facility

On March 26, 2009, we entered into a new Second Lien Facility. The Second Lien Facility provides for a \$25.5 million secured term loan facility which matures in 2014. The loan under the Second Lien Facility was made by Column Investments S.a.r.l., an affiliate of MidOcean. In connection with closing the Second Lien Facility, we borrowed the entire \$25.5 million available under the facility which provided for cash proceeds of \$25.0 million (representing a discount).

Borrowings under the Second Lien Facility bear interest at 15% per annum payable quarterly in arrears. The Second Lien Facility requires no principal payments until maturity. Interest is payable quarterly as follows: (i) prior to the third anniversary, interest is only payable in kind; and (ii) after the third anniversary, interest is payable in cash so long as the Senior Credit Facilities leverage ratio is less than or equal to 2.75:1.00. Interest accrued on the Second Lien Facility as of September 27, 2009 was approximately \$2.0 million.

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

Our obligations under the Second Lien Facility are unconditionally and irrevocably guaranteed by our domestic subsidiaries. In addition, the Second Lien Facility is secured by a second priority perfected security interest 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 Second Lien Facility contains certain events of default and restrictive covenants which are customary with respect to facilities of this type, including limitations on the incurrence of indebtedness, dividends, investments, prepayment of certain indebtedness, sales of assets, liens, mergers and transactions with affiliates. In addition, the credit agreement contains (i) cross-acceleration provisions tied to the Senior Credit Facilities and cross-default provisions tied to the Senior Notes and (ii) compliance with certain financial and operating covenants, including a minimum EBITDA covenant and a maximum capital expenditure covenant, which are based on the covenants contained in the Senior Credit Facilities with less restrictive thresholds by approximately 15%. The credit agreement also contains a make-whole provision for any prepayment prior to the scheduled maturity date.

In connection with the closing of the Second Lien Facility, Holdings issued immediately exercisable warrants to certain MidOcean entities to acquire 5% of Holdings units issued and outstanding on the dates of exercise. The fair value of the warrants issued in connection with the credit agreement governing the Second Lien Facility was \$6.3 million and was recorded as paid-in capital with the offset recorded as a discount on the Second Lien Facility which is amortized over the life of the Second Lien Facility.

In connection with the amendment to the Senior Credit Facilities and entry into the new Second Lien Facility, we recorded deferred financing costs of \$1.9 million.

Long-term debt of \$12.5 million is scheduled to mature in 2013 and \$330.3 million is scheduled to mature in 2014 and thereafter.

4. Intangibles (in thousands):

Goodwill

We have two reporting units (Company-owned and Franchise) for the purposes of evaluating goodwill for impairment. The carrying value of goodwill was allocated to each of our reporting units based upon the fair value of the reporting units at the date of the Merger.

Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or circumstances that would more likely than not reduce the carrying amount of a reporting unit below its fair value. The Company last performed its annual test for impairment as of December 27, 2008 and was scheduled to do so again in the fourth quarter of 2009. However, with the continuing economic downturn affecting our five year financial forecasts, management believed that there were circumstances evident to warrant impairment testing as of September 27, 2009.

Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, Step 2 must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

Consistent with previous tests, we considered the results of both an income approach and a market approach in determining the fair value of the reporting units.

For the income approach we assumed that the current economic downturn would continue domestically in 2010 with slight improvements in the second half of the year, followed by growth in future years consistent with our growth prior to the recent downturn in the economy. Internationally, we assumed the continued downturn in the economy in 2010 followed by growth in future years consistent with our growth prior to the recent downturn in the economy.

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

We applied gross margin assumptions consistent with the Company's current trends and used a 5.3% growth factor. Discounting the projected cash flows at 15.0% we determined a fair value for the reporting units.

We calculated the fair value of the reporting units' equity using a market approach based on option pricing principles. This method estimates the fair value of the reporting unit's equity using inputs such as current debt, future expected interest payments over the term, expected volatility and risk-free rate. For purposes of our analysis, we used a three year term with an expected volatility of 40.0% and risk-free rate of 1.5%. Volatility assumptions were based on published estimates of the Company's industry peer group.

The Company considered each alternative in determining fair value of the reporting units, and in doing so concluded that given the current environment, the market-based equity pricing model (market approach) was most appropriate. This resulted in full impairment of goodwill in the amount of \$6.7 million for the franchise reporting segment. No goodwill impairment was recorded for the Company-owned reporting segment as its fair value exceeded its carrying value by 38%.

Had the volatility assumption in the market approach been at a point below 35%, Step 2 testing would have been performed on the Company-owned reporting segment and it is likely that an impairment of goodwill would have been necessary.

The following table presents goodwill balances of the two reporting units and the activity for the periods shown:

	<u>Company-owned</u>	<u>Franchise</u>
December 30, 2007	\$ 196,087	\$15,149
Adjustments, net of store acquisitions	(1,301)	—
Impairment	—	(8,475)
December 28, 2008	194,786	6,674
Impairment	—	(6,674)
September 27, 2009	<u>\$ 194,786</u>	<u>\$ —</u>

Other Intangibles

In connection with the impairment testing of the Company's goodwill, impairment testing was also performed on our trademarks and other indefinite lived intangible assets. We completed this test to determine any impairment value on trademarks, franchise relationships and franchise rights acquired by using the income approach which projects the present value of future cash flows attributable to these assets using the Relief from Royalty method.

The following table presents trademark, franchise rights acquired, franchise relationships and franchise agreements, net and the activity for the periods shown:

	<u>Trademark</u>	<u>Franchise Relationships</u>	<u>Franchise Rights Acquired</u>	<u>Franchise Agreements, net</u>
December 30, 2007	\$248,000	\$ 24,300	\$ 1,351	\$ 6,345
Amortization	—	—	—	(1,457)
Impairment	(53,000)	(7,000)	—	—
December 28, 2008	\$195,000	\$ 17,300	\$ 1,351	\$ 4,888
Amortization	—	—	—	(929)
Impairment	(21,900)	(2,900)	—	—
September 27, 2009	<u>\$173,100</u>	<u>\$ 14,400</u>	<u>\$ 1,351</u>	<u>\$ 3,959</u>

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

For purposes of establishing inputs for the fair value calculations described above related to indefinite lived intangible assets, we assumed that the current economic downturn would continue domestically through 2010 with slight improvements in the second half of 2010, followed by growth in future years consistent with our growth prior to the recent downturn in the economy. Internationally, we assumed the continued downturn in the economy in 2010 followed by growth in future years consistent with our growth prior to the recent downturn in the economy.

We applied gross margin assumptions consistent with the Company's current trends and used a 4.4% growth factor. Discounting the projected cash flows of these indefinite lived intangible assets at 14.5%, a rate similar to that used in the Company's goodwill impairment tests, we determined a value of \$173.1 million for our trademarks and \$14.4 million for our franchise relationships at September 27, 2009. Accordingly, we impaired \$21.9 million of trademark and \$2.9 million for franchise relationships intangibles at September 27, 2009. The fair value of the franchise rights acquired exceeded their carrying value. If the terminal growth rate used in the fair value calculation for trademarks and franchise relationships intangibles was decreased by 1%, the impairment charge would have increased by \$10.3 million and \$1.0 million, respectively. If the discount rate used in the fair value calculation for trademarks and franchise relationships was increased by 1%, the impairment charges would have increased by \$16.0 million and \$1.5 million, respectively.

Franchise agreements are definite lived assets and amortized over the life of the agreements. Amortization expense of \$.9 and \$1.1 million was recorded in the nine months ended September 27, 2009 and September 28, 2008, respectively. At September 27, 2009 and September 28, 2008 accumulated amortization was \$4.0 million and \$2.7 million, respectively.

Franchise Rights Acquired

During 2007, we purchased 9 stores in Utah and Hawaii owned by two franchisees. The total purchase price was \$4.0 million of which \$2.6 million was allocated to fixed assets and \$1.4 million was allocated to franchise rights.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the indefinite lived asset impairment testing during the nine months ended September 27, 2009 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue, margin growth rates, or net cash flows are not achieved, we may be required to record additional impairment charges in future periods. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

5. Income Taxes:

We provide for income taxes using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes as determined under enacted tax laws and rates. The effect of changes in tax laws or rates is accounted for in the period of enactment.

We adopted the provisions of FASB Interpretation "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB 109." This interpretation prescribes a recognition threshold and a related measurement model. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities. The adoption of the provisions of this did not have a material impact on our consolidated financial statements and we do not expect the change to have a significant impact on our results of operations or financial position during the next twelve months.

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. Ultimately, the realization of the deferred tax asset is dependent upon the generation of sufficient future taxable income during those periods in which temporary differences become deductible and/or net operating loss and tax credit carryforwards can be utilized. Management considers the level of historical taxable income, scheduled reversal of taxable temporary differences, projected future taxable income and impairment of other assets.

Based on these considerations and the uncertainty surrounding the future economic climate, management believes that it is more likely than not that our net operating loss carryforward, foreign tax credit carryforward, and other deferred tax assets will not be realized. In the first nine months of 2009, we recorded an addition to our valuation allowance against these deferred tax assets of \$5.6 million. The balance of the valuation allowance as of September 27, 2009 was \$40.6 million.

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

6. Fair Value Measurement

Current accounting guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

In addition, the guidance requires disclosures about the use of fair value to measure assets and liabilities to enable the assessment of inputs used to develop fair value measures, and for unobservable inputs to determine the effects of the measurements on earnings.

The fair values of cash and cash equivalents, accounts receivables-net, and accounts payable approximate carrying amounts because of the short maturities of these instruments. Based on the quoted market price and trades, the estimated fair value of our Senior Notes as of September 27, 2009 approximated \$119 million. Fair value of the Senior Credit Facility was obtained from an independent source of composite bid prices from multiple dealers (level 2 input) and approximated \$141 million as of September 27, 2009.

Fair value of the Second Lien was obtained from an independent source based on broker quotes, as well as consideration of peer group credit spread analysis and was determined to be \$23.2 million at September 27, 2009.

The fair values of goodwill and intangible assets were determined using level 3 inputs. The level 3 fair values were determined using both the market approach and the income approach (discounted cash flow). The market approach determined the fair value using an options valuation model. This model estimated the fair value of the Company's equity using inputs such as current debt, future expected interest payments over the term, expected volatility and risk-free rate. The fair value of certain intangibles was determined under the discounted cash flow approach. In doing so, the Company determined fair value based on estimated future cash flows discounted at a rate commensurate with the Company's risk characteristics. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. We assumed that the current economic downturn would continue domestically in 2010 with slight improvements in the second half of the year, followed by growth in future years consistent with our growth prior to the recent downturn in the economy. Internationally, we assumed the continued downturn in the economy through 2010 followed by growth in future years consistent with our growth prior to the recent downturn in the economy. This is discussed further in Note 4—Intangibles to our Consolidated Financial Statements.

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

7. 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 quick service restaurants (“QSR”) 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 1—Summary of Significant Accounting Policies* and *Note 13—Business Segment Information* to our *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 28, 2008.

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	Franchised Restaurants (In thousands)	Totals
3rd Quarter 2009			
Total revenue	\$ 82,141	\$ 3,388	\$ 85,529
Operating (loss) income before unallocated costs	(23,195)	2,150	(21,045)
Unallocated costs and expenses ⁽¹⁾			5,549
Operating loss			\$ (26,594)
3rd Quarter 2008			
Total revenue	\$ 87,483	\$ 4,384	\$ 91,867
Operating income before unallocated costs	7,741	3,389	11,130
Unallocated costs and expenses ⁽¹⁾			5,737
Operating income			\$ 5,393
YTD 3rd Quarter 2009			
Total revenue	\$ 235,083	\$ 10,162	\$ 245,245
Operating (loss) income before unallocated costs	(11,936)	6,277	(5,659)
Unallocated costs and expenses ⁽¹⁾			18,978
Operating loss			\$ (24,637)
YTD 3rd Quarter 2008			
Total revenue	\$ 248,379	\$ 12,108	\$ 260,487
Operating income before unallocated costs	17,024	8,729	25,753
Unallocated costs and expenses ⁽¹⁾			17,601
Operating income			\$ 8,152

(1) Represents certain general and administrative expenses that are not allocated by segment.

Geographic Information

The Company recorded revenues of \$239 million and \$6 million and \$253 million and \$7 million in the United States and all other foreign countries in the first nine months of 2009 and 2008, respectively, and \$83 million and \$2 million and \$89 million and \$3 million in the United States and all other foreign countries in the third quarter of 2009 and 2008, respectively.

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

8. 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, the Senior Credit Facilities, and the Second Lien Facility on a joint and several basis.

The following condensed consolidating financial information presents:

- (1) Condensed unaudited consolidating balance sheets as of September 27, 2009 and December 28, 2008 and unaudited statements of operations for the three months ended September 27, 2009 and September 28, 2008 and our unaudited statement of operations and cash flows for the nine months ended September 27, 2009 and September 28, 2008 for:
(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 equity method.

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Balance Sheet
As of September 27, 2009
ASSETS
(In thousands)
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Current assets:					
Cash and cash equivalents	\$ 11,806	\$ 1,446	\$ 204	\$ —	\$ 13,456
Receivables					
Franchise	3,564	—	—	—	3,564
Other	2,668	252	79	—	2,999
	6,232	252	79	—	6,563
Inventories	1,030	1,449	109	—	2,588
Prepaid expenses	1,689	461	66	—	2,216
Total current assets	20,757	3,608	458	—	24,823
Intercompany receivables	(33,808)	35,805	(1,848)	(149)	—
Investment in subsidiaries	66,854	—	1,240	(68,094)	—
Property and equipment, net	20,316	38,393	1,410	(230)	59,889
Goodwill	194,786	—	—	—	194,786
Trademarks	173,100	—	—	—	173,100
Other intangible assets, net	19,710	—	—	—	19,710
Deferred financing costs, net	9,334	—	—	—	9,334
Other assets	1,514	186	523	(897)	1,326
Total assets	<u>\$472,563</u>	<u>\$ 77,992</u>	<u>\$ 1,783</u>	<u>\$ (69,370)</u>	<u>\$ 482,968</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Balance Sheet
As of September 27, 2009
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands)
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Current liabilities:					
Accounts payable	\$ 6,345	\$ 153	\$ 142	\$ —	\$ 6,640
Accrued expenses	20,046	2,255	731	(723)	22,309
Accrued interest payable	3,340	—	—	—	3,340
Total current liabilities	29,731	2,408	873	(723)	32,289
Deferred rent	256	5,791	—	—	6,047
Deferred tax liability	77,323	—	—	—	77,323
Due to former shareholders & other	12,636	(378)	—	—	12,258
Accrued interest payable	2,008	—	—	—	2,008
Long-term debt	336,032	—	—	—	336,032
Shareholders' equity:					
Common stock, \$.01 par value, 1000 shares authorized, 100 issued & outstanding	—	—	372	(372)	—
Additional paid-in capital	133,000	68,302	1,902	(70,204)	133,000
Additional paid-in capital warrants	6,340	—	—	—	6,340
Currency translation adjustments	172	—	252	(252)	172
Advances to MidOcean SBR Holdings	(305)	—	—	—	(305)
(Accumulated deficit) retained earnings	(125,339)	77	(1,616)	1,539	(125,339)
Total shareholders' equity	13,868	68,379	910	(69,289)	13,868
Noncontrolling interest	709	1,792	—	642	3,143
Total shareholders' equity, including noncontrolling interests	14,577	70,171	910	(68,647)	17,011
Total liabilities and shareholders' equity	\$ 472,563	\$ 77,992	\$ 1,783	\$ (69,370)	\$ 482,968

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Balance Sheet
As of December 28, 2008
ASSETS
(In thousands)
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Current assets:					
Cash and cash equivalents	\$ 34,249	\$ 3,468	\$ 569	\$ —	\$ 38,286
Receivables					
Franchise	3,845	—	—	—	3,845
Other	3,346	531	442	(371)	3,948
	7,191	531	442	(371)	7,793
Inventories	1,243	1,720	120	—	3,083
Prepaid expenses	2,050	590	313	—	2,953
Deferred tax asset	—	—	—	—	—
Total current assets	44,733	6,309	1,444	(371)	52,115
Intercompany receivables	(27,269)	28,887	(2,038)	420	—
Investment in subsidiaries	66,447	—	—	(66,447)	—
Property and equipment, net	24,199	40,685	986	(230)	65,640
Goodwill	201,460	—	—	—	201,460
Trademarks	195,000	—	—	—	195,000
Other intangible assets, net	23,539	—	—	—	23,539
Deferred financing costs, net	8,934	—	—	—	8,934
Other assets	1,080	183	1,479	(1,662)	1,080
Total assets	<u>\$538,123</u>	<u>\$ 76,064</u>	<u>\$ 1,871</u>	<u>\$ (68,290)</u>	<u>\$ 547,768</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Balance Sheet
As of December 28, 2008
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)
(In thousands)
(Continued)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Current liabilities:					
Accounts payable	\$ 11,255	\$ 219	\$ 147	\$ —	\$ 11,621
Accrued expenses	21,358	1,647	504	(537)	22,972
Accrued interest payable	7,291	—	—	—	7,291
Due to former shareholders	2,993	—	—	—	2,993
Insurance premium financing	1,087	—	—	—	1,087
Current portion of debt	3,958	—	—	—	3,958
Total current liabilities	47,942	1,866	651	(537)	49,922
Deferred rent	500	4,689	—	—	5,189
Deferred tax liability	87,238	—	—	—	87,238
Due to former shareholders	11,043	—	—	—	11,043
Long-term debt	346,297	—	—	—	346,297
Shareholders' equity:					
Common stock, \$.01 par value, 1000 shares authorized, 100 issued & outstanding	—	—	148	(148)	—
Additional paid-in capital	133,000	68,301	699	(69,000)	133,000
Currency translation adjustments	135	—	169	(169)	135
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
(Accumulated deficit) retained earnings	(88,639)	(856)	(708)	1,564	(88,639)
Total shareholders' equity	44,191	67,445	308	(67,753)	44,191
Noncontrolling interest	912	2,064	912	—	3,888
Total shareholders' equity, including noncontrolling interests	45,103	69,509	1,220	(67,753)	48,079
Total liabilities and shareholders' equity	<u>\$538,123</u>	<u>\$ 76,064</u>	<u>\$ 1,871</u>	<u>\$ (68,290)</u>	<u>\$ 547,768</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations
For the nine months ended September 27, 2009
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	\$ 99,855	\$ 133,785	\$ 1,443	\$ —	\$ 235,083
Franchise related income	10,162	—	—	—	10,162
Total revenues	<u>110,017</u>	<u>133,785</u>	<u>1,443</u>	<u>—</u>	<u>245,245</u>
Costs and expenses:					
Cost of food and paper products	23,887	23,773	457	—	48,117
Payroll and other employee benefits	26,705	38,770	572	—	66,047
Other operating costs	38,166	50,748	1,001	—	89,915
Other income, net	(270)	(2,510)	(105)	—	(2,885)
Depreciation and amortization	5,723	6,516	58	—	12,297
General and administrative	22,588	5	19	—	22,612
Asset impairment, restaurant closings	1,232	1,073	—	—	2,305
Goodwill & other intangible asset impairment	31,474	—	—	—	31,474
Intercompany charges	(13,979)	13,893	86	—	—
Total costs and expenses, net	<u>135,526</u>	<u>132,268</u>	<u>2,088</u>	<u>—</u>	<u>269,882</u>
Operating (loss) income	(25,509)	1,517	(645)	—	(24,637)
Other (expense) income:					
Interest expense	(20,747)	—	—	—	(20,747)
Write-off of deferred financing costs	(423)	—	—	—	(423)
Interest income	33	—	—	—	33
Net other (expense) income	<u>(21,137)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(21,137)</u>
Equity in loss of subsidiaries	396	—	—	(396)	—
(Loss) income before income taxes and equity investments	(46,250)	1,517	(645)	(396)	(45,774)
Income tax benefit	(9,480)	—	—	—	(9,480)
(Loss) income before equity investments	(36,770)	1,517	(645)	(396)	(36,294)
Loss from equity investments	—	—	(162)	—	(162)
Net (loss) income	(36,770)	1,517	(807)	(396)	(36,456)
Net loss (income) attributable to noncontrolling interests	70	(583)	269	—	(244)
Net (loss) income attributable to Sbarro, Inc.	<u>\$ (36,700)</u>	<u>\$ 934</u>	<u>\$ (538)</u>	<u>\$ (396)</u>	<u>\$ (36,700)</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations
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
Total revenues	<u>119,414</u>	<u>139,456</u>	<u>1,617</u>	<u>—</u>	<u>260,487</u>
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	39,407	51,954	1,037	—	92,398
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
Intercompany charges	(15,495)	15,376	119	—	—
Total costs and expenses, net	<u>106,326</u>	<u>143,740</u>	<u>2,269</u>	<u>—</u>	<u>252,335</u>
Operating income (loss)	13,088	(4,284)	(652)	—	8,152
Other (expense) income:					
Interest expense	(21,581)	(1)	(35)	—	(21,617)
Interest income	130	2	—	—	132
Net other (expense) income	<u>(21,451)</u>	<u>1</u>	<u>(35)</u>	<u>—</u>	<u>(21,485)</u>
Equity in loss of subsidiaries	(5,288)	—	—	5,288	—
Loss before income taxes and equity investments	(13,651)	(4,283)	(687)	5,288	(13,333)
Income tax benefit	(4,815)	—	(122)	—	(4,937)
Loss before equity investments	(8,836)	(4,283)	(565)	5,288	(8,396)
Loss from equity investments	—	—	(185)	—	(185)
Net loss	(8,836)	(4,283)	(750)	5,288	(8,581)
Net (income) loss attributable to noncontrolling interests	(70)	(514)	259	—	(325)
Net loss attributable to Sbarro, Inc.	<u>\$ (8,906)</u>	<u>\$ (4,797)</u>	<u>\$ (491)</u>	<u>\$ 5,288</u>	<u>\$ (8,906)</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations
For the three months ended September 27, 2009
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Revenues:					
Restaurant sales	\$ 35,431	\$ 46,084	\$ 626	\$ —	\$ 82,141
Franchise related income	3,388	—	—	—	3,388
Total revenues	<u>38,819</u>	<u>46,084</u>	<u>626</u>	<u>—</u>	<u>85,529</u>
Costs and expenses:					
Cost of food and paper products	8,556	8,256	176	—	16,988
Payroll and other employee benefits	9,485	13,560	215	—	23,260
Other operating costs	12,975	17,000	366	—	30,341
Other income, net	(48)	(806)	(11)	—	(865)
Depreciation and amortization	1,945	1,860	25	—	3,830
General and administrative	6,763	4	19	—	6,786
Asset impairment, restaurant closings	(1,766)	1,753	13	—	—
Goodwill & other intangible asset impairment	31,474	—	—	—	31,474
Intercompany charges	199	110	—	—	309
Total costs and expenses, net	<u>69,583</u>	<u>41,737</u>	<u>803</u>	<u>—</u>	<u>112,123</u>
Operating (loss) income	(30,764)	4,347	(177)	—	(26,594)
Other (expense) income:					
Interest expense	(7,414)	—	—	—	(7,414)
Interest income	—	—	—	—	—
Net other (expense) income	<u>(7,414)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,414)</u>
Equity in loss of subsidiaries	<u>3,802</u>	<u>—</u>	<u>—</u>	<u>(3,802)</u>	<u>—</u>
(Loss) income before income taxes and equity investments	(34,376)	4,347	(177)	(3,802)	(34,008)
Income tax benefit	(9,752)	—	—	—	(9,752)
(Loss) income before equity investments	<u>(24,624)</u>	<u>4,347</u>	<u>(177)</u>	<u>(3,802)</u>	<u>(24,256)</u>
Loss from equity investments	—	—	(54)	—	(54)
Net (loss) income	<u>(24,624)</u>	<u>4,347</u>	<u>(231)</u>	<u>(3,802)</u>	<u>(24,310)</u>
Net loss (income) attributable to noncontrolling interests	103	(393)	79	—	(211)
Net (loss) income attributable to Sbarro, Inc.	<u>\$ (24,521)</u>	<u>\$ 3,954</u>	<u>\$ (152)</u>	<u>\$ (3,802)</u>	<u>\$ (24,521)</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations
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
Total revenues	<u>42,797</u>	<u>48,537</u>	<u>533</u>	<u>—</u>	<u>91,867</u>
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	13,476	18,087	(117)	—	31,446
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
Intercompany charges	(3,778)	3,747	31	—	—
Total costs and expenses, net	<u>37,753</u>	<u>48,500</u>	<u>221</u>	<u>—</u>	<u>86,474</u>
Operating income	5,044	37	312	—	5,393
Other (expense) income:					
Interest expense	(6,563)	—	(9)	—	(6,572)
Interest income	25	—	—	—	25
Net other (expense) income	<u>(6,538)</u>	<u>—</u>	<u>(9)</u>	<u>—</u>	<u>(6,547)</u>
Equity in loss of subsidiaries	251	—	—	(251)	—
(Loss) income before income taxes and equity investments					
Income tax benefit	(1,243)	37	303	(251)	(1,154)
Income tax benefit	8	—	(122)	—	(114)
(Loss) income before equity investments	<u>(1,251)</u>	<u>37</u>	<u>425</u>	<u>(251)</u>	<u>(1,040)</u>
Loss from equity investments	—	—	(57)	—	(57)
Net (loss) income	<u>(1,251)</u>	<u>37</u>	<u>368</u>	<u>(251)</u>	<u>(1,097)</u>
Net loss (income) attributable to noncontrolling interests	77	259	(413)	—	(77)
Net (loss) income attributable to Sbarro, Inc.	<u>\$ (1,174)</u>	<u>\$ 296</u>	<u>\$ (45)</u>	<u>\$ (251)</u>	<u>\$ (1,174)</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Cash Flows
For the nine months ended September 27, 2009
(In thousands)
(Continued)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Operating Activities:					
Net (loss) income	\$(36,770)	\$ 1,517	\$ (807)	\$ (396)	\$ (36,456)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Goodwill & other intangible asset impairment	31,474	—	—	—	31,474
Depreciation and amortization	5,723	6,516	58	—	12,297
Amortization of deferred financing costs	1,084	—	—	—	1,084
Provision for doubtful accounts receivable	916	—	—	—	916
Increase in deferred rent, net of tenant allowance	510	883	11	—	1,404
Asset impairment, restaurant closings/remodels	817	283	—	—	1,100
Change in deferred income taxes, net	(9,915)	—	—	—	(9,915)
Equity in net loss of unconsolidated affiliates	—	—	162	—	162
Write-off of deferred financing costs	423	—	—	—	423
Changes in operating assets and liabilities:					
(Increase) decrease in receivables	(189)	251	363	(371)	54
Decrease in inventories	213	271	11	—	495
(Increase) decrease in prepaid expenses	(726)	129	247	—	(350)
Increase in other assets	(86)	—	—	—	(86)
(Decrease) increase in accounts payable and accrued expenses	(7,747)	(580)	698	(649)	(8,278)
Decrease in accrued interest payable	(1,941)	—	—	—	(1,941)
Net cash (used in) provided by operating activities	<u>(16,214)</u>	<u>9,270</u>	<u>743</u>	<u>(1,416)</u>	<u>(7,617)</u>
Investing Activities:					
Purchases of property and equipment	(1,378)	(4,424)	(475)	—	(6,277)
Investment in joint ventures	(283)	—	—	—	(283)
Net cash used in investing activities	<u>(1,661)</u>	<u>(4,424)</u>	<u>(475)</u>	<u>—</u>	<u>(6,560)</u>
Financing Activities:					
Proceeds from second lien	25,000	—	—	—	25,000
Repayment of secured term loan and revolver	(32,958)	—	—	—	(32,958)
Debt issue and credit amendment costs	(1,834)	—	—	—	(1,834)
Capital contribution from noncontrolling interests	—	—	394	—	394
Repayment of short-term loan to noncontrolling interests	—	—	(374)	—	(374)
Distribution of earnings to noncontrolling interests	(881)	—	—	—	(881)
Intercompany balances	6,105	(6,868)	(653)	1,416	—
Net cash used in financing activities	<u>(4,568)</u>	<u>(6,868)</u>	<u>(633)</u>	<u>1,416</u>	<u>(10,653)</u>
Decrease in cash and cash equivalents	(22,443)	(2,022)	(365)	—	(24,830)
Cash and cash equivalents at beginning of period	34,249	3,468	569	—	38,286
Cash and cash equivalents at end of period	<u>\$ 11,806</u>	<u>\$ 1,446</u>	<u>\$ 204</u>	<u>\$ —</u>	<u>\$ 13,456</u>

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

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Operating Activities:					
Net (loss) income	\$ (8,836)	\$ (4,283)	\$ (750)	\$ 5,288	\$ (8,581)
Adjustments to reconcile net (loss) income to net cash 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 of tenant allowance	1,112	106	—	—	1,218
Asset impairment, restaurant closings/remodels	—	1,184	—	—	1,184
Change in deferred income tax, net	(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	4,370	(1,135)	1,475	(674)	4,036
Decrease in accrued interest payable	(4,252)	—	—	—	(4,252)
Net cash (used in) provided by operating activities	<u>(97)</u>	<u>2,292</u>	<u>547</u>	<u>(674)</u>	<u>2,068</u>
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	<u>(3,818)</u>	<u>(10,938)</u>	<u>—</u>	<u>—</u>	<u>(14,756)</u>
Financing Activities:					
Repayment of secured term loan	(1,373)	—	—	—	(1,373)
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
Capital contribution from noncontrolling interests	—	—	480	—	480
Repayment of short-term loan to noncontrolling interests	—	—	(614)	—	(614)
Distribution of earnings to noncontrolling interests	(922)	—	—	—	(922)
Intercompany balances	(7,959)	7,412	(127)	674	—
Net cash (used in) provided by financing activities	<u>(10,559)</u>	<u>7,412</u>	<u>(261)</u>	<u>674</u>	<u>(2,734)</u>
(Decrease) increase 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	<u>\$ 11,219</u>	<u>\$ 1,659</u>	<u>\$ 567</u>	<u>\$ —</u>	<u>\$ 13,445</u>

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;
- 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 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 of 2009 is the thirty nine weeks ended September 27, 2009 and the year to date third quarter of 2008 is the thirty nine weeks ended September 28, 2008 and the third quarter of 2009 is the thirteen weeks ended September 27, 2009 and the third quarter of 2008 is the thirteen weeks ended September 28, 2008.

We are the world's leading Italian QSR concept and the largest shopping mall-focused restaurant concept in the world. We have a global base of 1,056 units in 42 countries, with 485 company-owned units, 554 franchised units and 17 joint venture units. Sbarro restaurants feature a menu of popular Italian food, including pizza, a selection of pasta dishes and other hot and cold Italian entrees, salads, sandwiches, drinks and desserts.

We operate our business through two segments. Our company-owned restaurant segment is comprised of the operating activities of our company-owned QSR's and other concept restaurants. Our franchised restaurant segment is comprised of our franchised restaurants which offer opportunities worldwide for qualified operators to conduct business under the Sbarro name and other trade names owned by Sbarro. Revenue from our franchised restaurant segment is generated from initial franchise fees, ongoing royalties and other franchising revenue. We do not allocate indirect corporate charges to our operating segments. Such costs are managed on an entity-wide basis, and the information to reasonably allocate such costs is not readily available. We do not allocate assets by segment because our chief operating decision makers do not review the assets by segment to assess performance, as the assets are managed on an entity-wide basis. Our operating segments are discussed in *Note 1—Summary of Significant Accounting Policies* and *Note 13—Business Segment Information* to our *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 28, 2008.

Our Restaurant Expansion

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

	Three months ended		Nine months ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Company-owned Sbarro restaurants:				
Open at beginning of period	485	509	509	506
Opened during period	2	3	7	11
Acquired from franchisees during period	—	1	—	2
Closed during period	(2)	(3)	(31)	(9)
Open at end of period	<u>485</u>	<u>510</u>	<u>485</u>	<u>510</u>
Franchised Sbarro restaurants:				
Open at beginning of period	560	546	566	524
Opened during period	13	22	49	70
Transferred to Sbarro during period	—	(1)	—	(2)
Closed during period	(19)	(16)	(61)	(41)
Open at end of period	<u>554</u>	<u>551</u>	<u>554</u>	<u>551</u>
Joint venture Sbarro restaurants:				
Open at beginning of period	17	9	16	7
Opened during period	—	5	1	7
Open at end of period	<u>17</u>	<u>14</u>	<u>17</u>	<u>14</u>
All restaurants:				
Open at beginning of period	1,062	1,064	1,091	1,037
Opened during period	15	30	57	88
Closed during period	(21)	(19)	(92)	(50)
Open at end of period	<u>1,056</u>	<u>1,075</u>	<u>1,056</u>	<u>1,075</u>

Seasonality

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

Goodwill and Other Intangible Assets

Management typically performs its required annual test for impairment on goodwill and evaluates the impairment of long-lived assets in the fourth quarter. However, the Company performed its impairment test for goodwill and other intangible assets in the third quarter 2009 as circumstances existed that served as a triggering event outside of the quarter that the annual goodwill impairment assessment is traditionally performed. This resulted in impairment charges to goodwill of \$6.7 and intangible assets of \$24.8 million. Given the uncertainty as to the length of the current economic condition and the timing and degree of recovery, it is reasonably possible that impairment charges may occur in future periods.

Noncontrolling Interests

We present noncontrolling interests in the equity section of our consolidated balance sheets, as a separate net income attributable to noncontrolling interests in our consolidated statement of operations, and as a distribution to/from noncontrolling interests in the consolidated statements of cash flows.

Summary Financial Information (dollars in millions)

	Three months ended September 27, 2009	Three months ended September 28, 2008	Nine months ended September 27, 2009	Nine months ended September 28, 2008
Comparable sales percentage change vs. prior comparable period ⁽¹⁾ :				
QSR-owned locations	-5.2%	-1.0%	-5.0%	-0.4%
Franchise locations:				
Domestic Franchise	-7.1%	-2.0%	-5.4%	-1.2%
International Franchise ⁽²⁾	-27.3%	15.5%	-25.9%	20.1%
Cost of food and paper products as a percentage of restaurant sales	20.7%	23.1%	20.5%	22.9%
Payroll and other benefits as a percentage of restaurant sales	28.3%	27.6%	28.1%	28.5%
Other operating expense as a percentage of restaurant sales	36.9%	35.9%	38.2%	37.2%
General and administrative costs as a percentage of revenues	7.9%	7.3%	9.2%	8.1%
EBITDA ^{(3) (4)}	\$ (23.0)	\$ 9.2	\$ (13.2)	\$ 20.4

- (1) Comparable and annual percentage changes are based on locations that were open during the entire period within the periods presented.
- (2) The majority of the decline in the 2009 International comparable Franchise sales related to the increase in the value of the U.S. dollar. Without consideration for foreign currency fluctuations, the international comparable franchise sales would have been -13% for the third quarter 2009 and -9% for the year-to-date ended September 27, 2009.
- (3) EBITDA represents earnings before interest income, interest expense, taxes, depreciation and amortization. EBITDA should not be considered in isolation from, or as a substitute for, net income, cash flow from operations or other cash flow statement data prepared in accordance with 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 the Senior Credit Facilities and the Second Lien Facility each contain a minimum EBITDA covenant. EBITDA, as calculated under our bank credit agreement, includes certain additional adjustments which are included in our Senior Credit Facility amendment. We also use EBITDA internally 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.
- (4) Included in the calculation of EBITDA in the third quarter 2009 is goodwill and intangible asset impairment charges of \$31.5 million. This is discussed in further detail under Note 4 – Intangible Assets to our Consolidated Financial Statements included in this report. Included in the calculation of EBITDA for the first nine months of 2009 is \$.4 million related to the write-off of deferred financing costs, \$.4 million of professional fees related to the prepayment and amendment to the Senior Credit Facilities and the goodwill and intangible asset impairment charges booked in the third quarter.

For each of the periods, 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 (dollars in thousands):

	Three months ended September 27, 2009	Three months ended September 28, 2008	Nine months ended September 27, 2009	Nine months ended September 28, 2008
EBITDA	\$ (23,029)	\$ 9,245	\$ (13,169)	\$ 20,362
Interest Expense	(7,414)	(6,572)	(20,747)	(21,617)
Interest Income	—	25	33	132
Income Tax Benefit	9,752	114	9,480	4,937
Depreciation and Amortization	(3,830)	(3,986)	(12,297)	(12,720)
Net Loss Attributable to Sbarro, Inc.	\$ (24,521)	\$ (1,174)	\$ (36,700)	\$ (8,906)

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:

	<u>Company- Owned Restaurants</u>	<u>Franchised Restaurants (In thousands)</u>	<u>Totals</u>
3rd Quarter 2009			
Total revenue	\$ 82,141	\$ 3,388	\$ 85,529
Operating (loss) income before unallocated costs	<u>(23,195)</u>	<u>2,150</u>	<u>(21,045)</u>
Unallocated costs and expenses ⁽¹⁾			5,549
Operating loss			<u>\$ (26,594)</u>
3rd Quarter 2008			
Total revenue	\$ 87,483	\$ 4,384	\$ 91,867
Operating income before unallocated costs	<u>7,741</u>	<u>3,389</u>	11,130
Unallocated costs and expenses ⁽¹⁾			5,737
Operating income			<u>\$ 5,393</u>
YTD 3rd Quarter 2009			
Total revenue	\$ 235,083	\$ 10,162	\$245,245
Operating (loss) income before unallocated costs	<u>(11,936)</u>	<u>6,277</u>	<u>(5,659)</u>
Unallocated costs and expenses ⁽¹⁾			18,978
Operating loss			<u>\$ (24,637)</u>
YTD 3rd Quarter 2008			
Total revenue	\$ 248,379	\$ 12,108	\$260,487
Operating income before unallocated costs	<u>17,024</u>	<u>8,729</u>	25,753
Unallocated costs and expenses ⁽¹⁾			17,601
Operating income			<u>\$ 8,152</u>

(1) Represents certain general and administrative expenses that are not allocated by segment.

Third Quarter 2009 versus Third Quarter 2008

Sales by QSR and consolidated other concept restaurants were \$82.1 million for the third quarter of 2009 compared to \$87.5 million for the third quarter of 2008. The decrease in sales is due to a decrease in comparable unit sales of 5.2% in our QSR restaurants and lost sales from stores strategically closed of \$3.7 million, partially offset by sales generated by new stores opened in 2009 and 2008 of \$2.5 million. The decrease in comparable unit sales primarily reflects continued reduced mall traffic throughout the United States as a result of the current economic environment.

Franchise related revenues were \$3.4 million for the third quarter of 2009 compared to \$4.4 million for the third quarter of 2008. The decrease is due to a decline in royalties on international and domestic comparable unit sales of which more than half of the decline is related to the strengthening of the U.S. dollar.

Cost of food and paper products as a percentage of restaurant sales decreased to 20.7% for the third quarter of 2009 as compared to 23.1% for the third quarter of 2008. The cost of cheese in the third quarter of 2009 averaged \$1.43 per pound compared to an average of \$2.26 per pound in the third quarter of 2008. This \$.83 per pound decrease in cheese costs accounted for \$1.3 million or 1.6% of restaurant sales. The cost of flour in the third quarter of 2009 averaged \$.31 per pound compared to \$.47 per pound for the third quarter of 2008. This \$.16 per pound decrease accounted for \$.5 million or .6% of restaurant sales.

Payroll and other employee benefits as a percentage of restaurant sales increased to 28.3% in the third quarter of 2009 from 27.6% in the third quarter of 2008 due to the lower sales volume.

Other operating costs decreased to \$30.3 million in the third quarter of 2009 compared to \$31.4 million in the third quarter of 2008. As a percentage of restaurant sales, operating costs increased to 36.9% in the third quarter of 2009 as compared to 35.9% in the third quarter of 2008 due to lower sales in 2009.

Other income, net totaled \$.9 million in both the third quarter of 2009 and 2008.

Depreciation and amortization decreased slightly to \$3.8 million in the third quarter of 2009 compared to \$4.0 million in the third quarter of 2008.

General and administrative expenses increased slightly to \$6.8 million in the third quarter of 2009 as compared to \$6.7 million in the third quarter of 2008. The increase was primarily related to an increase to the provision for doubtful accounts in the third quarter of 2009.

Goodwill and other intangible asset impairment totaled \$31.5 million for the third quarter 2009. There were no goodwill or intangible asset impairment charges in the third quarter 2008. This is discussed further in Note 4 – Intangibles to our Consolidated Financial Statements included in this report.

Asset impairment, restaurant closing and remodeling costs were \$.3 million in the third quarter of 2009 compared to \$.8 million in the third quarter of 2008. This decrease is due to fewer stores being remodeled in 2009.

Interest expense of \$7.4 million for the third quarter of 2009 and \$6.6 million for the third quarter of 2008 relates primarily to the Senior Notes and the Term Loans under our Senior Credit and Second Lien Facilities. Included in interest expense in the third quarter of 2009 and the third quarter of 2008 was the amortization of deferred financing costs for the Senior Notes, Term Loan and Second Lien Facility for 2009 of \$.3 million and \$.3 million, respectively. The increase in interest expense is related to interest on the Second Lien Facility partially offset by lower principal outstanding on the Senior Credit Facility in the third quarter of 2009 as compared to the third quarter of 2008.

The income tax benefit was \$9.8 million for the third quarter of 2009 and our effective tax rate was 28.7%. During the third quarter of 2009, we recorded a \$1.0 million increase to the valuation allowance on our deferred tax assets increasing the valuation allowance to \$40.6 million as of September 27, 2009. The income tax benefit was \$.1 million for the third quarter of 2008 and our effective tax rate was 9.9%.

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

Net income attributable to noncontrolling interests relates to our joint ventures in India and certain partnerships.

Net loss attributable to Sbarro, Inc. was \$24.5 million for the third quarter of 2009 as compared to a net loss of \$1.2 million for the third quarter of 2008. Included in the third quarter of 2009 net loss was goodwill and other intangible asset impairment of \$31.5 million offset by an income tax benefit of \$9.8 million. Without impairment charges and taxes, the net loss would have been \$2.5 million and \$1.2 million in the third quarter 2009 and 2008, respectively. This increase in net loss was primarily the result of increased interest expense, a decrease in comparable unit and franchise sales, partially offset by the reduction in commodity costs and cost savings initiatives.

Year to Date 2009 versus 2008

Sales by QSR and consolidated other concept restaurants were \$235.1 million for the first nine months of 2009 compared to \$248.4 million for the first nine months of 2008. The decrease in sales is due to a decrease in comparable unit sales of 5% in our QSR restaurants, lost sales from stores strategically closed of \$9.6 million, partially offset by sales generated by new stores opened in 2009 and 2008 of \$8.0 million. The decrease in comparable unit sales primarily reflects reduced mall traffic throughout the United States as a result of the current economic environment.

Franchise related revenues were \$10.2 million for the first nine months of 2009 compared to \$12.1 million for the first nine months of 2008. The decrease is due to a decline in royalties on international and domestic comparable unit sales of which more than half of the decline is related to the strengthening of the U.S. dollar.

Cost of food and paper products as a percentage of restaurant sales decreased to 20.5% for the first nine months of 2009 as compared to 22.9% for the first nine months of 2008. The cost of cheese in the first nine months of 2009 averaged \$1.38 per pound compared to an average of \$2.18 per pound in the first nine months of 2008. This \$.80 per pound decrease in cheese costs accounted for \$3.7 million or 1.6% of restaurant sales. The cost of flour in the first nine months of 2009 averaged \$.30 per pound compared to \$.43 per pound for the first nine months of 2008. This \$.13 per pound decrease accounted for \$1.2 million or .5% of restaurant sales.

Payroll and other employee benefits as a percentage of restaurant sales decreased to 28.1% in the first nine months of 2009 from 28.5% in the first nine months of 2008. The decrease is due to cost control initiatives implemented in 2009.

Other operating costs were \$89.9 million in the first nine months of 2009 compared to \$92.4 million in the first nine months of 2008. As a percentage of restaurant sales, other operating costs increased to 38.2% in the first nine months of 2009 as compared to 37.2% in the first nine months of 2008 due to lower sales in 2009.

Other income, increased slightly to \$2.9 million in the first nine months of 2009 from \$2.8 million in the first nine months of 2008.

Depreciation and amortization decreased to \$12.3 million in the first nine months of 2009 compared to \$12.7 million for the first nine months of 2008 due to underperforming stores closed in the beginning of 2009.

General and administrative expenses were \$22.6 million in the first nine months of 2009 as compared to \$21.0 million in the first nine months of 2008. The increase was primarily related to severance costs, fees related to the amendment to the Senior Credit Facilities and an increase to the provision for doubtful accounts, partially offset by cost control initiatives implemented in 2009.

Goodwill and other intangible asset impairment totaled \$31.5 million, respectively for the first nine months of 2009. There were no goodwill or intangible asset impairment charges for the first nine months of 2008. This is discussed further in Note 4—Intangibles to our Consolidated Financial Statements included in this report.

Asset impairment, restaurant closing and remodeling costs were \$2.3 million in the first nine months of 2009 compared to \$1.2 million in the first nine months of 2008. The \$1.1 million increase is primarily due to stores strategically closed.

Interest expense of \$20.7 million for the first nine months of 2009 and \$21.6 million for the first nine months of 2008 relates primarily to the Senior Notes and the Term Loans under our Senior Credit Facilities. Included in interest expense in the first nine months of 2009 and the first nine months of 2008 was the amortization of deferred financing costs for the Senior Notes, Term Loan and Second Lien Facility for 2009 of \$1.0 million and \$.8 million, respectively. The decrease in interest expense is related to lower principal outstanding and lower interest rates on the Senior Credit Facility in the first nine months of 2009 as compared to the first nine months of 2008 partially offset by interest on the Second Lien Facility.

Write-off of deferred financing costs of \$.4 million in the first nine months of 2009 related to prepayment of the Senior Credit Facility.

The income tax benefit was \$9.5 million for the first nine months of 2009 and our effective tax rate was 20.7%. During the first nine months of 2009, we recorded a \$5.6 million increase to the valuation allowance on our deferred tax assets increasing the valuation allowance to \$40.6 million as of September 27, 2009. The income tax benefit was \$4.9 million for the first nine months of 2008 and our effective tax rate was 35.7%.

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

Net income attributable to noncontrolling interests relates to our joint ventures in India and certain partnerships.

Net loss attributable to Sbarro, Inc. was \$36.7 million for the first nine months of 2009 as compared to a net loss of \$8.9 million for the first nine months of 2008. Included in the first nine months of 2009 net loss was goodwill and other intangible asset impairment of \$31.5 million offset by an income tax benefit of \$9.5 million. Without impairment charges and taxes, the net loss would have been \$14.3 million and \$13.3 million in the first nine months of 2009 and 2008, respectively. This increase in net loss was primarily the result of a decrease in comparable unit and franchise sales, partially offset by the reduction in commodity costs and cost savings initiatives.

Liquidity and Capital Resources

Principal Cash Requirements and Sources

We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on indebtedness incurred in connection with the Merger, and from funding our costs of operations, working capital and capital expenditures. Cash flow generated during our fourth quarter is critical to achieving positive annual operating cash flow. Adverse macroeconomic factors, including reduced mall traffic during the holiday shopping season and a decline in consumer spending, among other factors, may negatively impact achieving our projected operating cash flow.

Our ability to borrow funds under our revolver is subject to our compliance with our debt covenant requirements. Prior to the amendment to our Senior Credit Facilities, such covenants included an interest coverage ratio and a total net leverage ratio. As of year end, we were in violation of our total net leverage ratio covenant under the credit agreement governing our Senior Credit Facilities.

On March 26, 2009, we entered into an amendment to the Senior Credit Facilities. The amendment permitted the Company to refinance a portion of our Term Loan by entering into a new Second Lien Facility (defined and discussed below), permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, replaced our total net leverage ratio covenant and interest coverage ratio covenant with a minimum EBITDA covenant and a maximum capital expenditure covenant, increased the margin on our Term Loan and Revolving Facility by 200 basis points, required prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility, required prepayment of \$3.5 million of the Revolving Facility from cash on hand and simultaneously reduced the Revolving Facility's amount outstanding and commitment to \$21.5 million, and restricted payment of MidOcean's annual management fee so that such fee will accrue but not be paid until the Company's EBITDA is at least \$55.0 million and, after such goal is obtained, then a maximum of \$2.0 million of such fees may be paid each year.

In response to the economic downturn in 2008, we began to implement aggressive strategic initiatives to reduce costs and improve our liquidity. These initiatives, which are ongoing, include closing unprofitable stores, renegotiating store lease terms, reducing headcount, revising our recipes without affecting our customers, as well as other expense controls. We believe these actions will enhance our liquidity going forward and will enable us to be in compliance with our debt covenants under the amended credit agreement and that cash generated from operations, together with cash on hand and amounts available under the Senior Credit Facilities, will be adequate to permit us to meet our debt service obligations, ongoing costs of operations, working capital needs and capital expenditure requirements for at least the next year. Our future financial and operating performance, ability to service or refinance our debt and ability to comply with covenants and restrictions contained in our debt agreements will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

We estimate that our annual cash interest expense under the Senior Notes and the Senior Credit Facilities will be approximately \$24 million under the amended Senior Credit Facilities, assuming a 1% LIBOR rate. Borrowings under the Second Lien Facility bear interest at 15% per annum payable quarterly in arrears. The Second Lien Facility requires no principal payments until maturity. Interest is payable quarterly as follows: (i) prior to the third anniversary, interest is only payable in kind; and (ii) after the third anniversary, interest is payable in cash so long as the Senior Credit Facilities leverage ratio is less than or equal to 2.75:1.00.

The amended Senior Credit Facilities require us to prepay outstanding borrowings, subject to certain exceptions, with (a) 75% of our annual excess cash flow; (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 invested approximately \$3 million in joint ventures in the first nine months of 2009. We repaid \$7.5 million of the Revolving Facility. We repaid \$.5 million in principal per the terms of our Term Loan. We prepaid \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility which satisfies our quarterly obligation for further principal amortization payments on our Senior Credit Facilities. We are not required to make principal payments, absent the occurrence of certain events, on our Senior Notes until they mature in 2015. We believe that aggregate capital expenditures for all of 2009 will approximate \$9.0 million which we expect will be funded with operating cash. Based upon our current level of operations, we believe our cash flows generated from operations along with our cash on hand and borrowings available under our Revolving Facility (\$5.4 million) will be sufficient for us to meet our debt service requirements and fund working capital and capital expenditures for at least the next twelve months. 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

The following table presents our contractual obligations as of September 27, 2009:

Dollars in millions	2009	2010	2011	2012	2013	Thereafter	Total
10.375% senior notes ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 150.0	\$ 150.0
Senior credit facility	—	—	—	—	12.5	154.8	167.3
Second lien facility	—	—	—	—	—	25.5	25.5
Estimated interest on long-term debt ⁽²⁾	2.7	25.3	26.2	43.8	31.2	20.1	149.3
Letters of credit ⁽³⁾	3.6	—	—	—	—	—	3.6
Operating leases ⁽⁴⁾	20.9	78.5	73.1	68.4	63.6	192.9	497.4
Due to former shareholders and other ⁽⁵⁾	—	.4	.4	2.5	5.0	3.9	12.2
	<u>\$27.2</u>	<u>\$104.2</u>	<u>\$99.7</u>	<u>\$114.7</u>	<u>\$112.3</u>	<u>\$ 547.2</u>	<u>\$1,005.3</u>

(1) There are no principal repayment obligations under the Senior Notes until 2015.

- (2) The Revolving Facility is due in 2013 and the Term Loan and the Second Lien is due in 2014. The estimated interest on long-term debt reflects the March 26, 2009 amendment to the Senior Credit Facilities. The amendment permitted the Company to enter into the new Second Lien Facility, increased the margin on our Term Loan and Revolving Facility by 200 basis points, required prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility and required prepayment of \$3.5 million of the Revolving Facility from cash on hand. Interest on the Second Lien Facility is payable quarterly as follows: (i) prior to the third anniversary, interest is only payable in kind; and (ii) after the third anniversary, interest is payable in cash so long as the Senior Credit Facilities leverage ratio is less than or equal to 2.75:1.00. Included in the above table is interest on the Second Lien Facility of: (in millions) 2012 - \$17.0, 2013 - \$3.8, thereafter - \$2.3.
- (3) Represents our maximum reimbursement obligations to the issuer of the letters of credit in the event the letters of credit are drawn upon. The letters of credit generally are issued instead of cash security deposits under operating leases or to guarantee construction costs for our locations and for run-out claims under our medical plan. All the standby letters of credit supporting leases are renewable annually through the expiration of the related lease terms. If not renewed, the beneficiary may draw upon the letters of credit as long as the underlying obligation remains outstanding.
- (4) Does not reflect the impact of renewals of operating leases that are scheduled to expire during the periods indicated. Includes franchise lease guarantees and the lease on our corporate headquarters.
- (5) Primarily represents the remaining amount we agreed to pay the former shareholders for any incremental tax benefit of deductions generated by the repurchase of our prior 11% Senior Notes or payment of the special event bonuses. The payment is due within 15 days of the filing of the U.S. tax return that claims these additional deductions.

Senior Credit Facilities:

In connection with the Merger, we entered into senior secured credit facilities. The senior secured credit facilities originally provided for loans of \$208.0 million under a \$183.0 million senior secured term loan facility (the "Term Loan") and a \$25.0 million senior secured revolving facility (the "Revolving Facility," and collectively with the Term Loan, 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 connection with the Merger, we borrowed the entire \$183.0 million available under the Term Loan. On October 17, 2008 and November 18, 2008, we borrowed \$8.0 million and \$12.0 million, respectively, and we repaid \$3.5 million and \$4.0 million on March 26, 2009 and June 1, 2009, respectively, under the Revolving Facility. The Term Loan Facility matures in 2014 and the Revolving Facility is scheduled to terminate and come due in 2013.

On March 26, 2009, we entered into an amendment to the Senior Credit Facilities. The amendment permitted the Company to refinance a portion of the Term Loan by entering into a new Second Lien Facility (defined and discussed below), permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, permanently replaced our total net leverage ratio covenant and interest coverage ratio covenant with a minimum EBITDA covenant and a maximum capital expenditure covenant, increased the margin on our Term Loan and Revolving Facility by 200 basis points, required prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility, required prepayment of \$3.5 million of the Revolving Facility from cash on hand and simultaneously reduced the Revolving Facility's amount outstanding and commitment to \$21.5 million, and restricted payment of MidOcean's annual management fee so that such fee will accrue but not be paid until the Company's annual EBITDA is at least \$55.0 million and, after such goal is obtained, then a maximum of \$2.0 million of such fees may be paid each year. In the first quarter of 2009, we recorded a \$.4 million write-off of deferred financing costs related to the prepayment of the Term Loan. On June 1, 2009, we repaid \$4.0 million of the Revolving Facility. There were \$3.6 million of letters of credit outstanding as of September 27, 2009. The letters of credit were 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. The credit agreement allows for a maximum amount of letters of credit of \$10.0 million outstanding at a time. After consideration of our outstanding Letter of Credit, as of September 27, 2009, our remaining borrowing availability under the Senior Credit Facilities was \$5.4 million.

In general, borrowings under the Senior Credit Facilities bear interest based, at our option, at either the LIBOR rate or an alternate base rate ("ABR"), in each case plus a margin. Our rate of interest for borrowings under the Senior Credit Facilities, as amended, is LIBOR plus 4.50% or ABR plus 3.50%. 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, as amended, requires compliance with certain financial and operating covenants, including a minimum EBITDA covenant and a maximum capital expenditure covenant.

Second Lien Facility

On March 26, 2009, we entered into a new Second Lien Facility. The Second Lien Facility provides for a \$25.5 million secured term loan facility which matures in 2014. The loan under the Second Lien Facility was made by Column Investments S.a.r.l., an affiliate of MidOcean. In connection with closing the Second Lien Facility, we borrowed the entire \$25.5 million available under the facility which provided for cash proceeds of \$25.0 million (representing a discount).

Borrowings under the Second Lien Facility bear interest at 15% per annum payable quarterly in arrears. The Second Lien Facility requires no principal payments until maturity. Interest is payable quarterly as follows: (i) prior to the third anniversary, interest is only payable in kind; and (ii) after the third anniversary, interest is payable in cash so long as the Senior Credit Facilities leverage ratio is less than or equal to 2.75:1.00. Interest accrued on the Second Lien Facility as of September 27, 2009 was approximately \$2.0 million.

Our obligations under the Second Lien Facility are unconditionally and irrevocably guaranteed by our domestic subsidiaries. In addition, the Second Lien Facility is secured by a second priority perfected security interest 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 Second Lien Facility contains certain events of default and restrictive covenants which are customary with respect to facilities of this type, including limitations on the incurrence of indebtedness, dividends, investments, prepayment of certain indebtedness, sales of assets, liens, mergers and transactions with affiliates. In addition, the credit agreement contains (i) cross-acceleration provisions tied to the Senior Credit Facilities and cross-default provisions tied to the Senior Notes and (ii) compliance with certain financial and operating covenants, including a minimum EBITDA covenant and a maximum capital expenditure covenant, which are based on the covenants contained in the Senior Credit Facilities with less restrictive thresholds by approximately 15%. The credit agreement also contains a make-whole provision for any prepayment prior to the scheduled maturity date.

In connection with the closing of the Second Lien Facility, Holdings issued immediately exercisable warrants to certain MidOcean entities to acquire 5% of Holdings units issued and outstanding on the dates of exercise. The fair value of the warrants issued in connection with the credit agreement governing the Second Lien Facility was \$6.3 million and was recorded as paid-in capital with the offset recorded as a discount on the Second Lien Facility which is amortized over the life of the Second Lien Facility.

In connection with the amendment to the Senior Credit Facilities and entry into the new Second Lien Facility, we recorded deferred financing costs of \$1.9 million.

Long-term debt of \$12.5 million is scheduled to mature in 2013 and \$330.3 million is scheduled to mature in 2014 and thereafter.

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 2009 and 2008 and the sources and uses of our cash flows during the first nine months of each of those years (in millions):

	<u>Nine Months Ended September 27, 2009</u>	<u>Nine Months Ended September 28, 2008</u>
<u>Liquidity at the end of period</u>		
Cash and cash equivalents	\$ 13.5	\$ 13.4
Working capital	(7.5)	(15.5)
<u>Net cash flows</u>		
(Used in) provided by operating activities	\$ (7.6)	\$ 2.1
Used in investing activities	(6.6)	(14.8)
Used in financing activities	(10.6)	(2.7)
Net decrease in cash	<u>\$ (24.8)</u>	<u>\$ (15.4)</u>

We have not historically required significant working capital to fund our existing operations and have financed our capital expenditures and investments in joint ventures through cash generated from operations or our line of credit. 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, like many other restaurant businesses, we may operate with negative working capital. Working capital decreased by \$9.7 million during the first nine months of 2009 as compared to working capital at the end of 2008 due to our new store openings, capital expenditures and debt issue costs related to the amendment to the Senior Credit Facility. Cash flow from current operations and our line of credit supports our working capital needs.

Net cash used in operating activities was \$7.6 million during the nine months ended September 27, 2009 as compared to \$2.1 million provided by operating activities for the nine months ended September 28, 2008. The increase in net cash used in the nine months ended September 27, 2009 is mainly due to a \$10.5 million net change in operating assets and liabilities, due primarily to the timing of payment of our current operating liabilities.

Net cash used in investing activities was \$6.6 million for the nine months ended September 27, 2009. Net cash used in investing activities was \$14.8 million for the nine months ended September 28, 2008. Net cash used in the nine months ended September 27, 2009 and September 28, 2008 was mostly related to capital expenditures utilized primarily for restaurant openings and renovation activity.

Net cash used in financing activities was \$10.6 million for the nine months ended September 27, 2009. This net cash used primarily represents repayment of the Term Loan and Revolving Facility and debt issue costs and payment of fees related to the amendment to the Senior Credit Facilities, net of the proceeds of the Second Lien Facility. The cash used in financing activities was \$2.7 million for the nine months ended September 28, 2008 and was for principal payments on our Term Loan and distributions to noncontrolling interests.

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 27, 2009, 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 28, 2008.

Recent Accounting Pronouncements

Refer to Note 2 to the Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements.

Certain Relationships and Related Transactions

During the first nine months of 2009, there were no related party transactions other than those discussed under the heading "Certain Relationships and Related Transactions" in Part II, Item 13 of our Annual Report on Form 10-K for the year ended December 28, 2008.

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 the commodities we purchase. As a result, our future commodities purchases are subject to changes in the prices of such commodities. We have entered and sometimes will enter into short-term, fixed rate contracts for some products we purchase.

Interest Rate Risk

We currently maintain our cash on hand in FDIC insured non-interest bearing checking accounts which earn an earnings credit rate. We have also invested our cash on hand in FDIC insured overnight cash management savings accounts earning interest based on the 91-day Treasury bill rates or FDIC insured overnight money market savings accounts. 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 a LIBOR rate or an alternative base rate (“ABR”), in each case plus a margin. Currently, our rate of interest for borrowings under the Senior Credit Facilities, as amended, is LIBOR plus 4.50% or ABR plus 3.50%. A 1% change in our current rate would have an annual effect of approximately \$1.7 million. Subsequent to the Merger, we entered into an Interest Rate Cap Letter Agreement with a bank for a portion of our Senior Credit Facilities. This agreement caps our LIBOR rate at 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 values of foreign currencies.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Controls

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.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) during the quarter ended September 27, 2009 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 28, 2008 in Note 8 to the Notes to the Consolidated Financial Statements have not materially changed except as noted in subsequent quarterly filings on Form 10-Q.

Item 1A. Risk Factors

The risk factors included in our Annual Report on Form 10-K for the year ended December 28, 2008 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 28, 2008. The risks and uncertainties described in our Annual Report on Form 10-K for the period ended December 28, 2008 are not the only ones that may affect us. If any of the events described actually occur, our business and financial results could be materially adversely affected.

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

None.

Item 3. Default upon senior securities

None.

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

None.

Item 5. Other information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
*3.1	Restated Certificate of Incorporation of Sbarro, Inc. (Exhibit 3.1 to our Registration Statement on Form S-4, File No. 333-142081)
*3.2	Amended and Restated Bylaws of Sbarro, Inc. (Exhibit 3.2 to our Registration Statement on Form S-4, File No. 333-142081)
*4.1	Indenture dated as of January 31, 2007 among MidOcean SBR Acquisition Corp., Sbarro, Inc., the subsidiary guarantors party thereto from time to time and the Bank of New York, as trustee. (Exhibit 4.1 to our Registration Statement on Form S-4, File No. 333-142081)
*4.2	Registration Rights Agreement dated January 31, 2007 among Sbarro, Inc., Credit Suisse Securities (USA) LLC and Banc of America Securities LLC, as Initial Purchasers. (Exhibit 4.2 to our Registration Statement on Form S-4, File No. 333-142081)
31.01	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Principal Financial and 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 Principal Financial and 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 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 12, 2009

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

Date: November 12, 2009

By: /s/ Carolyn M. Spatafora
Carolyn M. Spatafora
Senior Vice President of Finance
Principal Financial and Accounting Officer

EXHIBIT INDEX

Item 6. Exhibits

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal 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 12, 2009

/s/ Peter Beaudrault

Peter Beaudrault

Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Carolyn M. Spatafora, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal 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 12, 2009

/s/ Carolyn M. Spatafora

Carolyn M. Spatafora

Senior Vice President of Finance

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Sbarro, Inc. (the "Company") on Form 10-Q for the period ended September 27, 2009 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 12, 2009

/s/ Peter Beaudrault

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

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

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

In connection with the Quarterly Report of Sbarro, Inc. (the "Company") on Form 10-Q for the period ended September 27, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carolyn M. Spatafora, Senior Vice President of Finance 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 12, 2009

/s/ Carolyn M. Spatafora

Carolyn M. Spatafora
Senior Vice President of Finance
(Principal Financial and Accounting 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.