
**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 March 28, 2010

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 May 10, 2010 was 100.

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Part I – Financial Information

Item 1. Consolidated Financial Statements

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

	<u>March 28, 2010</u>	<u>December 27, 2009</u>
Current assets:		
Cash and cash equivalents	\$ 16,165	\$ 26,863
Receivables, net of allowance for doubtful accounts of \$1,791 and \$1,805 at March 28, 2010 and December 27, 2009, respectively:		
Franchise	1,806	2,237
Other	2,661	2,916
	<u>4,467</u>	<u>5,153</u>
Inventories	2,589	2,907
Prepaid expenses	3,308	1,771
Total current assets	<u>26,529</u>	<u>36,694</u>
Property and equipment, net	55,068	56,148
Intangible assets:		
Goodwill	194,786	194,786
Trademarks	173,100	173,100
Other intangible assets	19,383	19,650
Deferred financing costs, net	8,596	8,977
Other assets	788	1,068
Total assets	<u>\$ 478,250</u>	<u>\$ 490,423</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>March 28, 2010</u>	<u>December 27, 2009</u>
Current liabilities:		
Accounts payable	\$ 6,401	\$ 9,032
Accrued expenses	22,072	22,631
Accrued interest payable	2,739	7,935
Total current liabilities	<u>31,212</u>	<u>39,598</u>
Deferred rent	6,848	6,482
Deferred tax liability	76,941	76,941
Due to former shareholders and other liabilities	12,758	12,508
Accrued interest payable	4,104	3,048
Long-term debt	336,175	336,095
Commitments and contingencies		
Shareholders' equity:		
Common stock		
Authorized 1,000 shares; \$.01 par value issued and outstanding 100 shares at March 28, 2010 and December 27, 2009	—	—
Additional paid-in capital	139,340	139,340
Currency translation adjustments	33	200
Advances to MidOcean SBR Holdings	(305)	(305)
Accumulated deficit	<u>(131,035)</u>	<u>(125,838)</u>
Total shareholders' equity	8,033	13,397
Noncontrolling interests	2,179	2,354
Total shareholders' equity, including noncontrolling interests	<u>10,212</u>	<u>15,751</u>
Total liabilities and shareholders' equity, Sbarro, Inc.	<u>\$ 478,250</u>	<u>\$ 490,423</u>

See Notes to Unaudited Consolidated Financial Statements.

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

	For The Three Months Ended March 28, 2010	For The Three Months Ended March 29, 2009
Revenues:		
Restaurant sales	\$ 75,227	\$ 76,283
Franchise related income	3,757	3,299
Total revenues	<u>78,984</u>	<u>79,582</u>
Costs and expenses:		
Cost of food and paper products	15,323	15,498
Payroll and other employee benefits	21,258	21,239
Other operating costs	30,012	29,844
Other income, net	(846)	(1,176)
Depreciation and amortization	3,374	4,201
General and administrative	7,600	8,401
Asset impairment, restaurant closings/remodels	—	880
Total costs and expenses, net	<u>76,721</u>	<u>78,887</u>
Operating income	<u>2,263</u>	<u>695</u>
Other (expense) income:		
Interest expense	(7,449)	(5,841)
Write-off of deferred financing costs	—	(423)
Interest income	—	32
Net other expense	<u>(7,449)</u>	<u>(6,232)</u>
Loss before income taxes and equity investments	(5,186)	(5,537)
Income tax expense	112	104
Loss before equity investments	(5,298)	(5,641)
Loss from equity investments	(62)	(55)
Net loss	(5,360)	(5,696)
Net loss (income) attributable to noncontrolling interests	163	(14)
Net loss attributable to Sbarro, Inc.	<u>\$ (5,197)</u>	<u>\$ (5,710)</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	Advances to MidOcean SBR Holdings	Accumulated Deficit	Accumulated Other Comprehensive Income (b)	Noncontrolling Interest	Total
	Number of Shares	Amount						
Balance at December 27, 2009	100	\$ —	\$139,340	\$ (305)	\$ (125,838)	\$ 200	\$ 2,354	\$15,751
Components of comprehensive loss:								
Net loss	—	—	—	—	(5,197)	—	(163)	(5,360)
Currency translation adjustments	—	—	—	—	—	(167)	150	(17)
Comprehensive loss (a)								(5,377)
Distribution of earnings and return of capital	—	—	—	—	—	—	(329)	(329)
Proceeds from loan repayment - noncontrolling interest	—	—	—	—	—	—	167	167
Balance at March 28, 2010	<u>100</u>	<u>\$ —</u>	<u>\$139,340</u>	<u>\$ (305)</u>	<u>\$ (131,035)</u>	<u>\$ 33</u>	<u>\$ 2,179</u>	<u>\$10,212</u>

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

	Quarter Ended March 28, 2010	Quarter Ended March 29, 2009
Net loss (including noncontrolling interests)	\$ (5,360)	\$ (5,696)
Currency translation adjustments	(17)	20
	(5,377)	(5,676)
Less: comprehensive (loss) income attributable to noncontrolling interests	(13)	28
Comprehensive loss - Sbarro, Inc.	<u>\$ (5,364)</u>	<u>\$ (5,704)</u>

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

	Quarter Ended March 28, 2010	Year Ended Dec 27, 2009
Currency translation adjustments	\$ 168	\$ 185
Less: noncontrolling interests - currency translation adjustments	135	(15)
Accumulated other comprehensive income - Sbarro, Inc.	<u>\$ 33</u>	<u>\$ 200</u>

See Notes to Unaudited Consolidated Financial Statements.

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

	For The Three Months Ended March 28, 2010	For The Three Months Ended March 29, 2009
Operating Activities:		
Net loss	\$ (5,360)	\$ (5,696)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,374	4,201
Amortization of deferred financing costs	461	308
Increase in deferred rent, net of tenant allowance	462	431
Asset impairment and restaurant closings/remodels	—	341
Write-off of deferred financing costs	—	423
Equity in net loss of unconsolidated affiliates	62	55
Changes in operating assets and liabilities		
Decrease in receivables	728	646
Decrease in inventories	318	306
Increase in prepaid expenses	(1,538)	(94)
Decrease (increase) in other assets	290	(67)
Decrease in accounts payable, accrued expenses & other liabilities	(3,131)	(8,455)
Decrease in accrued interest payable	(4,140)	(4,099)
Net cash used in operating activities	<u>(8,474)</u>	<u>(11,700)</u>
Investing Activities:		
Purchases of property and equipment	(2,062)	(2,679)
Investment in joint ventures	—	(130)
Net cash used in investing activities	<u>(2,062)</u>	<u>(2,809)</u>
Financing Activities:		
Proceeds from (repayment of) short term loan to noncontrolling interests	167	(225)
Distribution of earnings to noncontrolling interests	(329)	(418)
Proceeds from second lien	—	25,000
Debt issuance costs	—	(1,498)
Repayment of secured term loan and revolver	—	(28,958)
Capital contribution from noncontrolling interests	—	170
Net cash used in financing activities	<u>(162)</u>	<u>(5,929)</u>
Decrease in cash and cash equivalents	(10,698)	(20,438)
Cash and cash equivalents at beginning of period	26,863	38,286
Cash and cash equivalents at end of period	<u>\$ 16,165</u>	<u>\$ 17,848</u>

See Notes to Unaudited Consolidated Financial Statements.

SBARRO INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

1. Basis of Financial Statement Presentation:

On January 31, 2007, entities controlled by MidOcean Partners III, LP, a private equity firm, and certain of its affiliates (“MidOcean”) acquired Sbarro, Inc. (“we,” “us,” “Sbarro” or 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 thus acquired control of the Company in the Merger. Certain of our senior managers acquired approximately 5% of the outstanding equity of Holdings in connection with the Merger, with the balance of the equity of Holdings being owned by other investors.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Regulation S-X related to interim period financial statements and, therefore, do not include all information and footnotes required by generally accepted accounting principles. However, in the opinion of our management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the consolidated financial position of Sbarro and our subsidiaries at March 28, 2010, and our consolidated results of operations and cash flows for the three months ended March 28, 2010 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. Certain items in the prior year’s consolidated financial statements have been reclassified to conform to the fiscal 2010 presentation. 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 27, 2009.

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 can negatively impact achieving our projected operating cash flow. Additionally, we experience pressures relating to increased commodity costs, particularly cheese and flour.

Our ability to borrow funds under our revolver is subject to 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 leverage ratio. 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 the new Second Lien Facility, permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, and 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, 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 on-going, include closing unprofitable stores, renegotiating store lease terms, reducing headcount and revisions to our recipes without affecting our customers, as well as other expense controls. We believe these actions enhance our liquidity going forward and will enable us to be in compliance with our debt covenants under the amendment 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 the next twelve months. 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.

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

Our minimum trailing twelve month EBITDA covenant, as calculated in accordance with our amended bank credit agreement, increases at the end of the fourth quarter of 2010 by \$3.0 million dollars to \$43.0 million. Our bank credit agreement EBITDA for fiscal 2009 was \$44.7 million. Based upon our 2010 business plan, we expect our bank credit agreement EBITDA for 2010 to exceed this minimum twelve month covenant, however achieving this budgeted bank credit agreement EBITDA amount will be highly dependent on the level of traffic in shopping malls during the fourth quarter holiday shopping season and, as a result, is closely tied to our projected fourth quarter increase in comparable sales percentage change versus the prior year. Our projections assume increases in same store sales commencing in the second half of the year, with the largest increase in our fourth quarter, and include the achievement of a 1% increase year over year same store sales in 2010. Considering related costs, each 1% decrease in comparable sales for the year may result in a net bank credit agreement EBITDA decrease of approximately \$1.5 million assuming our payroll as a percentage of sales adjusts accordingly as was the case in 2009. Failing to achieve our budgeted 1% increase in comparable sales percentage, or experiencing a decrease in comparable sales percentage that differs from our business plan by more than 2% for the year, or by approximately 6% of same store sales in the fourth quarter, could cause a bank credit agreement EBITDA shortfall that increases the risk of non-compliance with our minimum EBITDA covenants.

Our last twelve month bank credit agreement EBITDA was \$43.5 million as of March 28, 2010 which exceeded our bank covenant of \$40 million. Our bank credit agreement EBITDA was in line with our business plan for the first quarter of 2010. Our April comparable sales were softer than plan as our traffic experienced a decline in the beginning of the second quarter as compared to the first quarter. We are not adjusting our business plan projections based on one month's sales.

Commodity costs can also fluctuate with the economy with cheese currently being the most volatile. A \$.20 variance in the price of block cheese to our projections can produce a variance to our business plan by approximately \$1 million as a benefit or a risk depending on the market.

We continue to implement savings initiatives throughout our operations including, but not limited to, store payroll, strategic closings of underperforming stores, recipe revisions, contract renegotiations, rent reductions, insurance and overhead reductions and evaluate other cost control measures to help mitigate any risk in achieving our 2010 business plan.

If the expected economic recovery and same store sales increases do not occur in a manner consistent with our business plan, or if we are unable to manage costs, each as discussed above, we may not be able to achieve our 2010 operating plan and meet our minimum EBITDA covenants.

Our bank credit agreements provide for certain cures in the event of noncompliance with our minimum EBITDA covenants.

2. Recent Accounting Pronouncements

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 adopted this new guidance specified in the "Consolidation" topic of the Accounting Standards Codification in our first quarter of 2010. The adoption of this statement did not have any material impacts on our consolidated financial statements as there were no changes in our consolidated entities.

3. Long Term Debt:

Indenture:

In 2007 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

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

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. In addition, the notes contain cross-acceleration provisions and cross-default provisions tied to the Senior Credit Facilities and the Second Lien Facility.

Senior Credit Facilities:

In 2007 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, 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, a maximum of \$2.0 million of such fees may be paid each year. In the first quarter of 2009, we wrote off \$0.4 million of deferred financing costs related to the prepayment of the Term Loan. There were \$3.6 million of letters of credit outstanding as of March 28, 2010. 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 March 28, 2010, 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. The loan under the Second Lien Facility was made by Column Investments S.a.r.l., an affiliate of MidOcean. In

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

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 1.96% discount). The Second Lien Facility matures in 2014.

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.

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.

In connection with the amendment to the Senior Credit Facilities and entry into the new Second Lien Facility, we recorded deferred financing costs of \$2.3 million. Long-term debt of \$12.5 million is scheduled to mature in 2013, \$180.3 million in 2014 and \$150.0 million is scheduled to mature in 2015 and thereafter. Refer to Note 5 "Fair Value Measurement" for the gross balance, net book value and fair value of our long-term debt at March 28, 2010.

4. 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.

In accounting for uncertainty in income taxes, for a tax benefit to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities.

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 quarter 2010 we recorded an addition to our valuation allowance against these deferred tax assets of \$1.6 million. The valuation allowance was \$41.3 million as of March 28, 2010.

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

5. 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.

The following table presents the gross balance, net book value and fair value of our long-term debt as of March 28, 2010 (in thousands):

	March 28, 2010		
	Gross Balance	Net Book Value	Fair Value
Senior Notes	\$150,000	\$150,000	\$126,750
Senior Credit Facility	167,298	167,298	151,301
Second Lien Facility	25,500	18,877	19,488
Total	<u>\$342,798</u>	<u>\$336,175</u>	<u>\$297,539</u>

The estimated fair value of our Senior Notes is based on the quoted market price and trades (level 1 input). Fair value of the Senior Credit Facility was obtained from an independent source of composite bid prices from multiple dealers (level 2 input). Fair value of the Second Lien Facility was obtained from an independent source based on broker quotes, as well as consideration of peer group credit spread analysis (level 1 input). Fair value of the warrants issued in connection with the credit agreement governing the Second Lien Facility was \$6.3 million.

6. 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’s”) and other concept restaurants. Our franchise restaurant segment is comprised of our franchised restaurants which offer opportunities worldwide for qualified operators to conduct business under the Sbarro name and other trade names owned by Sbarro. Revenue from our franchised restaurant segment is generated from initial franchise fees, ongoing royalties and other franchising revenue. We do not allocate indirect corporate charges to our operating segments. Such costs are managed on an entity-wide basis, and the information to reasonably allocate such costs is not readily available. We do not allocate assets by segment because our chief operating decision makers do not review the assets by segment to assess performance, as the assets are managed on an entity-wide basis. Our operating segments are discussed in *Note 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 27, 2009.

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

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</u> (In thousands)	<u>Totals</u>
1st Quarter 2010			
Total revenue	<u>\$ 75,227</u>	<u>\$ 3,757</u>	<u>\$78,984</u>
Operating income before unallocated costs	<u>\$ 6,111</u>	<u>\$ 2,872</u>	<u>\$ 8,983</u>
Unallocated costs and expenses ⁽¹⁾			<u>6,720</u>
Operating income			<u>\$ 2,263</u>
1st Quarter 2009			
Total revenue	<u>\$ 76,283</u>	<u>\$ 3,299</u>	<u>\$79,582</u>
Operating income before unallocated costs	<u>\$ 5,965</u>	<u>\$ 2,099</u>	<u>\$ 8,064</u>
Unallocated costs and expenses ⁽¹⁾			<u>7,369</u>
Operating income			<u>\$ 695</u>

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

Geographic Information

The Company recorded revenues of \$76.2 million and \$2.8 million and \$77.8 million and \$1.8 million in the United States and all other foreign countries in the first quarter of 2010 and the first quarter of 2009, respectively.

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

7. 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 March 28, 2010 and December 27, 2009 and unaudited statements of operations and cash flows for the three months ended March 28, 2010 and March 29, 2009: (a) Sbarro, (“the Parent”), (b) the guarantor subsidiaries as a group, (c) the nonguarantor subsidiaries as a group, and (d) Sbarro on a consolidated basis.
- (2) Elimination entries necessary to consolidate the Parent with the guarantor and nonguarantor subsidiaries.

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

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Balance Sheet
As of March 28, 2010
ASSETS
(In thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 11,693	\$ 2,852	\$ 1,620	\$ —	\$ 16,165
Receivables					
Franchise	1,806	—	—	—	1,806
Other	2,278	284	99	—	2,661
	4,084	284	99	—	4,467
Inventories	999	1,469	121	—	2,589
Prepaid expenses	2,460	536	312	—	3,308
Total current assets	19,236	5,141	2,152	—	26,529
Intercompany receivables	(43,650)	46,829	(3,294)	115	—
Investment in subsidiaries	75,423	—	1,506	(76,929)	—
Property and equipment, net	18,541	35,873	884	(230)	55,068
Goodwill	194,786	—	—	—	194,786
Trademarks	173,100	—	—	—	173,100
Other intangible assets	19,383	—	—	—	19,383
Deferred financing costs, net	8,596	—	—	—	8,596
Other assets	162	201	425	—	788
Total assets	<u>\$465,577</u>	<u>\$ 88,044</u>	<u>\$ 1,673</u>	<u>\$ (77,044)</u>	<u>\$ 478,250</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Balance Sheet
As of March 28, 2010
LIABILITIES AND SHAREHOLDER'S EQUITY
(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	\$ 6,027	\$ 263	\$ 111	\$ —	\$ 6,401
Accrued expenses	18,090	2,385	1,827	(230)	22,072
Accrued interest payable	2,739	—	—	—	2,739
Total current liabilities	<u>26,856</u>	<u>2,648</u>	<u>1,938</u>	<u>(230)</u>	<u>31,212</u>
Deferred rent	178	6,670	—	—	6,848
Deferred tax liability	76,941	—	—	—	76,941
Due to former shareholders & other liabilities	12,758	—	—	—	12,758
Accrued interest payable	4,104	—	—	—	4,104
Long-term debt	336,175	—	—	—	336,175
Commitment and contingencies					
Shareholders' equity:					
Common stock					
Authorized 1,000 shares; \$.01 par value issued and outstanding 100 shares at March 28, 2010	—	—	492	(492)	—
Additional paid in capital	139,340	68,302	2,182	(70,484)	139,340
Currency translation adjustment	33	—	209	(209)	33
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
(Accumulated deficit) retained earnings	(131,035)	8,713	(3,184)	(5,529)	(131,035)
Total shareholder's equity	<u>8,033</u>	<u>77,015</u>	<u>(301)</u>	<u>(76,714)</u>	<u>8,033</u>
Noncontrolling interests	532	1,711	36	(100)	2,179
Total shareholder's equity, including noncontrolling interests	<u>8,565</u>	<u>78,726</u>	<u>(265)</u>	<u>(76,814)</u>	<u>10,212</u>
Total liabilities & stockholders' equity, Sbarro, Inc.	<u>\$ 465,577</u>	<u>\$ 88,044</u>	<u>\$ 1,673</u>	<u>\$ (77,044)</u>	<u>\$ 478,250</u>

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

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 23,713	\$ 2,464	\$ 686	\$ —	\$ 26,863
Receivables					
Franchise	2,237	—	—	—	2,237
Other	2,549	304	63	—	2,916
	4,786	304	63	—	5,153
Inventories	1,152	1,643	112	—	2,907
Prepaid expenses	1,094	533	144	—	1,771
Total current assets	30,745	4,944	1,005	—	36,694
Intercompany receivables	(43,062)	45,250	(2,472)	284	—
Investment in subsidiaries	73,468	—	1,240	(74,708)	—
Property and equipment, net	19,358	36,415	605	(230)	56,148
Goodwill	194,786	—	—	—	194,786
Trademarks	173,100	—	—	—	173,100
Other intangible assets	19,650	—	—	—	19,650
Deferred financing costs, net	8,977	—	—	—	8,977
Other assets	1,745	201	848	(1,726)	1,068
Total Assets	<u>\$478,767</u>	<u>\$ 86,810</u>	<u>\$ 1,226</u>	<u>\$ (76,380)</u>	<u>\$ 490,423</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Balance Sheet
As of December 27, 2009
LIABILITIES AND SHAREHOLDER'S EQUITY
(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	\$ 8,730	\$ 164	\$ 138	\$ —	\$ 9,032
Accrued expenses	19,329	2,599	933	(230)	22,631
Accrued interest payable	7,935	—	—	—	7,935
Total current liabilities	<u>35,994</u>	<u>2,763</u>	<u>1,071</u>	<u>(230)</u>	<u>39,598</u>
Deferred rent	139	6,343	—	—	6,482
Deferred tax liability	76,941	—	—	—	76,941
Due to former shareholders & other liabilities	12,508	—	—	—	12,508
Accrued interest payable	3,048	—	—	—	3,048
Long-term debt	<u>336,095</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>336,095</u>
Shareholders' equity:					
Common stock, \$.01 par value, 1000 shares authorized, 100 issued & outstanding at December 27, 2009	—	—	484	(484)	—
Additional paid-in capital	139,340	68,302	1,910	(70,212)	139,340
Currency translation adjustments	200	—	255	(255)	200
Advances to MidOcean SBR Holding	(305)	—	—	—	(305)
(Accumulated deficit) retained earnings	<u>(125,838)</u>	<u>7,509</u>	<u>(2,310)</u>	<u>(5,199)</u>	<u>(125,838)</u>
Total shareholders' equity	13,397	75,811	339	(76,150)	13,397
Noncontrolling interest	<u>645</u>	<u>1,893</u>	<u>(184)</u>	<u>—</u>	<u>2,354</u>
Total shareholders' equity, including noncontrolling interests	14,042	77,704	155	(76,150)	15,751
Total liabilities and shareholders' equity, Sbarro, Inc.	<u>\$ 478,767</u>	<u>\$ 86,810</u>	<u>\$ 1,226</u>	<u>\$ (76,380)</u>	<u>\$ 490,423</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Consolidated Financial Statements
Consolidating Statement of Operations
For the three months ended March 28, 2010
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenues:					
Restaurant sales	\$30,806	\$ 43,804	\$ 617	\$ —	\$ 75,227
Franchise related income	3,757	—	—	—	3,757
Total revenues	34,563	43,804	617	—	78,984
Costs and expenses:					
Cost of food and paper products	7,438	7,701	184	—	15,323
Payroll and other employee benefits	8,411	12,636	211	—	21,258
Other operating costs	12,314	17,070	628	—	30,012
Other income, net	(81)	(761)	(4)	—	(846)
Depreciation and amortization	1,628	1,728	18	—	3,374
General and administrative	7,029	11	560	—	7,600
Intercompany charges	(4,274)	4,215	59	—	—
Total costs and expenses, net	32,465	42,600	1,656	—	76,721
Operating income (loss)	2,098	1,204	(1,039)	—	2,263
Other expense:					
Interest expense	(7,449)	—	—	—	(7,449)
Other expense	(7,449)	—	—	—	(7,449)
Equity in loss of subsidiaries	330	—	—	(330)	—
(Loss) income before income taxes and equity investments					
(Loss) income before income taxes and equity investments	(5,021)	1,204	(1,039)	(330)	(5,186)
Income tax expense	112	—	—	—	112
(Loss) income before equity investments	(5,133)	1,204	(1,039)	(330)	(5,298)
Loss from equity investments	—	—	(62)	—	(62)
Net (loss) income	(5,133)	1,204	(1,101)	(330)	(5,360)
Less: Net (income) loss attributable to noncontrolling interests	(64)	—	227	—	163
Net loss attributable to Sbarro, Inc.	\$ (5,197)	\$ 1,204	\$ (874)	\$ (330)	\$ (5,197)

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Operations
For the three months ended March 29, 2009
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenues:					
Restaurant sales	\$31,856	\$ 44,039	\$ 388	\$ —	\$ 76,283
Franchise related income	3,299	—	—	—	3,299
Total revenues	<u>35,155</u>	<u>44,039</u>	<u>388</u>	<u>—</u>	<u>79,582</u>
Costs and expenses:					
Cost of food and paper products	7,548	7,811	139	—	15,498
Payroll and other employee benefits	8,504	12,551	184	—	21,239
Other operating costs	12,834	16,684	326	—	29,844
Other income, net	(105)	(1,041)	(30)	—	(1,176)
Depreciation and amortization	1,797	2,390	14	—	4,201
General and administrative	8,401	—	—	—	8,401
Intercompany charges	(6,396)	6,360	36	—	—
Asset impairment, restaurant closings	370	510	—	—	880
Total costs and expenses, net	<u>32,953</u>	<u>45,265</u>	<u>669</u>	<u>—</u>	<u>78,887</u>
Operating income (loss)	2,202	(1,226)	(281)	—	695
Other (expense) income:					
Interest expense	(5,841)	—	—	—	(5,841)
Write-off of deferred financing costs	(423)	—	—	—	(423)
Interest income	32	—	—	—	32
Net other (expense) income	<u>(6,232)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,232)</u>
Equity in loss of subsidiaries	<u>(1,575)</u>	<u>—</u>	<u>—</u>	<u>1,575</u>	<u>—</u>
(Loss) income before income taxes and equity investments	(5,605)	(1,226)	(281)	1,575	(5,537)
Income tax expense	104	—	—	—	104
(Loss) income before equity investments	(5,709)	(1,226)	(281)	1,575	(5,641)
Loss from equity investments	—	—	(55)	—	(55)
Net (loss) income	(5,709)	(1,226)	(336)	1,575	(5,696)
Net (income) loss attributable to noncontrolling interests	(1)	(130)	117	—	(14)
Net (loss) income attributable to Sbarro, Inc.	<u>\$ (5,710)</u>	<u>\$ (1,356)</u>	<u>\$ (219)</u>	<u>\$ 1,575</u>	<u>\$ (5,710)</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Cash Flows
For the three months ended March 28, 2010
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Operating Activities:					
Net (loss) income	\$ (5,133)	\$ 1,204	\$ (1,101)	\$ (330)	\$ (5,360)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization	1,628	1,728	18	—	3,374
Amortization of deferred financing costs	461	—	—	—	461
Increase in deferred rent, net of tenant allowance	129	329	4	—	462
Equity in net loss of unconsolidated affiliates	—	—	62	—	62
Changes in operating assets and liabilities:					
Decrease (increase) in receivables	744	20	(36)	—	728
Decrease (increase) in inventories	153	174	(9)	—	318
Increase in prepaid expenses	(1,366)	(3)	(169)	—	(1,538)
Decrease in other assets	279	11	—	—	290
(Decrease) increase in accounts payable, accrued expenses & other liabilities	(3,851)	(69)	789	—	(3,131)
Decrease in accrued interest payable	(4,140)	—	—	—	(4,140)
Net cash (used in) provided by operating activities	<u>(11,096)</u>	<u>3,394</u>	<u>(442)</u>	<u>(330)</u>	<u>(8,474)</u>
Investing Activities:					
Purchases of property and equipment	(628)	(1,134)	(300)	—	(2,062)
Net cash used in investing activities	<u>(628)</u>	<u>(1,134)</u>	<u>(300)</u>	<u>—</u>	<u>(2,062)</u>
Financing Activities:					
Proceeds from short term loan to noncontrolling interests	—	—	167	—	167
Distribution of earning to noncontrolling interests	(329)	—	—	—	(329)
Intercompany balances	33	(1,872)	1,509	330	—
Net cash (used in) provided by financing activities	<u>(296)</u>	<u>(1,872)</u>	<u>1,676</u>	<u>330</u>	<u>(162)</u>
(Decrease) increase in cash and cash equivalents	(12,020)	388	934	—	(10,698)
Cash and cash equivalents at beginning of period	23,713	2,464	686	—	26,863
Cash and cash equivalents at end of period	<u>\$ 11,693</u>	<u>\$ 2,852</u>	<u>\$ 1,620</u>	<u>\$ —</u>	<u>\$ 16,165</u>

SBARRO, INC. AND SUBSIDIARIES
Notes To Unaudited Consolidated Financial Statements
Consolidating Statement of Cash Flows
For the three months ended March 29, 2009
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Nonguarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Operating Activities:					
Net (loss) income	\$ (5,709)	\$ (1,226)	\$ (336)	\$ 1,575	\$ (5,696)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization	1,797	2,390	14	—	4,201
Amortization of deferred financing costs	308	—	—	—	308
Increase in deferred rent, net of tenant allowance	160	271	—	—	431
Asset impairment, restaurant closings/remodels	158	183	—	—	341
Equity in net loss of unconsolidated affiliates	—	—	—	55	55
Write-off of deferred financing costs	423	—	—	—	423
Changes in operating assets and liabilities:					
Decrease (increase) in receivables	742	(97)	(116)	117	646
Decrease (increase) in inventories	143	176	(13)	—	306
(Increase) decrease in prepaid expenses	(417)	70	253	—	(94)
Increase in other assets	(67)	—	—	—	(67)
(Decrease) increase in accounts payable and accrued expenses	(7,673)	(734)	1,009	(1,057)	(8,455)
Decrease in accrued interest payable	(4,099)	—	—	—	(4,099)
Net cash (used in) provided by operating activities	<u>(14,234)</u>	<u>1,033</u>	<u>811</u>	<u>690</u>	<u>(11,700)</u>
Investing Activities:					
Purchases of property and equipment	(477)	(2,170)	(32)	—	(2,679)
Investment in joint ventures	(130)	—	—	—	(130)
Net cash used in investing activities	<u>(607)</u>	<u>(2,170)</u>	<u>(32)</u>	<u>—</u>	<u>(2,809)</u>
Financing Activities:					
Proceeds from second lien	25,000	—	—	—	25,000
Repayment of secured term loan and revolver	(28,958)	—	—	—	(28,958)
Debt issue costs	(1,498)	—	—	—	(1,498)
Capital contribution from noncontrolling interests	—	—	170	—	170
Repayment of short term loan to noncontrolling interests	—	—	(225)	—	(225)
Distribution of earnings to noncontrolling interests	(418)	—	—	—	(418)
Intercompany balances	2,285	(715)	(880)	(690)	—
Net cash used in financing activities	<u>(3,589)</u>	<u>(715)</u>	<u>(935)</u>	<u>(690)</u>	<u>(5,929)</u>
Decrease in cash and cash equivalents	(18,430)	(1,852)	(156)	—	(20,438)
Cash and cash equivalents at beginning of period	34,249	3,468	569	—	38,286
Cash and cash equivalents at end of period	<u>\$ 15,819</u>	<u>\$ 1,616</u>	<u>\$ 413</u>	<u>\$ —</u>	<u>\$ 17,848</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 first quarter of 2010 is the thirteen weeks ended March 28, 2010 and the first quarter of 2009 is the thirteen weeks ended March 29, 2009.

We are the world's leading Italian Quick Service Restaurant ("QSR") concept and the largest shopping mall-focused restaurant concept in the world. We have a global base of 1,055 units in 41 countries, with 484 company-owned units, 550 franchised units and 21 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 27, 2009.

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 March 28, 2010	Three Months Ended March 29, 2009
Company-owned Sbarro restaurants:		
Open at beginning of period	484	509
Opened during period	3	4
Closed during period	(3)	(23)
Open at end of period	<u>484</u>	<u>490</u>
Franchised Sbarro restaurants:		
Open at beginning of period	555	566
Opened during period	8	23
Closed during period	(13)	(23)
Open at end of period	<u>550</u>	<u>566</u>
Joint venture Sbarro restaurants:		
Open at beginning of period	17	16
Opened during period	4	—
Open at end of period	<u>21</u>	<u>16</u>
All restaurants:		
Open at beginning of period	1,056	1,091
Opened during period	15	27
Closed during period	(16)	(46)
Open at end of period	<u>1,055</u>	<u>1,072</u>

Seasonality

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

Goodwill and Other Intangible Assets

Due to the seasonality of our business, we perform our annual test for impairment on our goodwill and intangible assets with indefinite lives as required by the accounting for goodwill and other intangible assets, and fully evaluate the impairment of long-lived assets as required by the accounting for the impairment and disposal of long-lived assets in the fourth quarter of our fiscal year. Any required

adjustments are recorded at that time unless our assumptions regarding forecasted revenue or margin growth rates are not achieved, then we may be required to record an impairment charge prior to that if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed.

Noncontrolling Interests

We present minority interests as noncontrolling interests in the equity section of our consolidated balance sheets as a separate net loss 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 March 28, 2010	Three Months Ended March 29, 2009
Comparable sales—percentage change vs. prior comparable period ⁽¹⁾ :		
QSR-owned locations	-1.6%	-4.8%
Franchise locations:		
Domestic Franchise	-4.3%	-4.3%
International Franchise:		
Local Currency	7.4%	-12.0%
Foreign Currency Impact	10.0%	-12.9%
International Franchise, net	17.4%	-24.9%
Cost of food and paper products as a percentage of restaurant sales	20.4%	20.3%
Payroll and other benefits as a percentage of restaurant sales	28.3%	27.8%
Other operating expense as a percentage of restaurant sales	39.9%	39.1%
General and administrative costs as a percentage of revenues	9.6%	10.6%
Bank credit agreement EBITDA ⁽²⁾	\$ 7,807	\$ 9,093

(1) Comparable and annual percentage changes are based on locations that were open during the entire period within the periods presented.

(2) Bank credit agreement EBITDA includes certain adjustments to EBITDA disclosed in our Senior Credit Facilities. 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 U.S. generally accepted accounting principles (“GAAP”) or as a measure of a company’s profitability or liquidity. Rather, we believe that EBITDA provides relevant and useful information for analysts and investors in our Senior Notes in that the Senior Credit Facilities and the Second Lien Facility each contain a minimum bank credit agreement EBITDA covenant. We also internally use EBITDA to determine whether or not 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.

For each of the periods shown, the following table reconciles our net loss to EBITDA and bank credit agreement EBITDA for each of the periods. We believe net loss is the most direct comparable GAAP financial measure to EBITDA and bank credit agreement EBITDA, (dollars in thousands):

	Three Months Ended March 28, 2010	Three Months Ended March 29, 2009
Net loss attributable to Sbarro, Inc.	\$ (5,197)	\$ (5,710)
Interest Expense	7,449	5,841
Interest Income	—	(32)
Income Tax Expense	112	104
Depreciation and Amortization	3,374	4,201
EBITDA attributable to Sbarro, Inc.	5,738	4,404
Adjustments:		
Non-cash charges and litigation charges	488	1,615
Professional fees expensed for credit amendment, management fees and related expenses	297	641
Restructuring related expenses, store closing costs and severance	319	1,938
Preopening, joint venture operations and taxes in lieu of income tax	965	495
Bank Credit Agreement EBITDA	<u>\$ 7,807</u>	<u>\$ 9,093</u>

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>
1st Quarter 2010			
Total revenue	\$ 75,227	\$ 3,757	\$78,984
Operating income before unallocated costs	<u>\$ 6,111</u>	<u>\$ 2,872</u>	\$ 8,983
Unallocated costs and expenses ⁽¹⁾			6,720
Operating income			<u>\$ 2,263</u>
1st Quarter 2009			
Total revenue	\$ 76,283	\$ 3,299	\$79,582
Operating income before unallocated costs	<u>\$ 5,965</u>	<u>\$ 2,099</u>	\$ 8,064
Unallocated costs and expenses ⁽¹⁾			7,369
Operating income			<u>\$ 695</u>

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

Sales by QSR and consolidated other concept restaurants were \$75.2 million for the first quarter of 2010 compared to \$76.3 million for the first quarter of 2009. The decrease in sales is due to a decrease in comparable unit sales of 1.6% in our QSR restaurants and lost sales from stores strategically closed of \$2.2 million, partially offset by sales generated by new stores opened in 2010 and 2009 of \$2.3 million. The decrease in comparable unit sales primarily reflects the reduction in consumer spending throughout the United States as a result of the current economic environment.

Franchise related revenues were \$3.8 million in the first quarter of 2010 compared to \$3.3 million for the first quarter of 2009. This resulted from an increase in international development fee income partially offset by lost royalties from stores closed.

Cost of food and paper products as a percentage of restaurant sales increased to 20.4% for the first quarter of 2010 as compared to 20.3% for the first quarter of 2009. The cost of cheese in the first quarter of 2010 averaged \$1.80 per pound compared to an average of \$1.38 per pound for the first quarter of 2009. This \$.42 per pound increase in cheese costs accounted for \$0.6 million or 0.7% of restaurant sales. The cost of flour in the first quarter of 2010 and the first quarter of 2009 averaged \$.30 per pound.

Payroll and other employee benefits as a percentage of restaurant sales increased to 28.3% in the first quarter of 2010 from 27.8% in the first quarter of 2009. The increase is due to increased payroll in the beginning of the quarter to drive traffic.

Other operating costs were \$30.0 million in the first quarter of 2010 compared to \$29.8 million in the first quarter of 2009. As a percentage of restaurant sales, other operating costs increased to 39.9% in the first quarter of 2010 as compared to 39.1% in the first quarter of 2009 due to an increase in store opening costs related to our joint venture operations in the first quarter of 2010 partially offset by cost control initiatives implemented in 2009.

Other income, net decreased to \$0.8 million in the first quarter of 2010 from \$1.2 million in the first quarter of 2009.

Depreciation and amortization decreased to \$3.4 million in the first quarter of 2010 compared to \$4.2 million in the first quarter of 2009 due to underperforming stores closed.

General and administrative expenses were \$7.6 million in the first quarter of 2010 as compared to \$8.4 million in the first quarter of 2009. The decrease was primarily related to a reduction in severance costs compared with the same period in the prior year and fees related to the amendment to the Senior Credit Facilities in the first quarter of 2009.

There were no costs associated with asset impairment, restaurant closing and remodeling in the first quarter of 2010. Such costs in the first quarter of 2009 amounted to \$0.9 million as there were 23 stores strategically closed.

Interest expense of \$7.4 million in the first quarter of 2010 and \$5.8 million for the first quarter of 2009 relates primarily to the Senior Notes, the Term Loans and Revolver under our Senior Credit Facilities and our Second Lien Facility. Included in interest expense in the first quarter of 2010 and 2009 was the amortization of deferred financing costs for the Senior Notes, Term Loan and Second Lien Facility of \$0.4 million and \$0.3 million, respectively.

Write-off of deferred financing costs of \$0.4 million in the first quarter of 2009 related to prepayment of the Senior Credit Facility.

Income tax expense was \$0.1 million for the first quarter of 2010 and our effective tax rate was a negative 2.2%. During the first quarter of 2010, we recorded a \$1.6 million increase to the valuation allowance on our deferred tax assets increasing the valuation allowance to \$41.3 million. The income tax expense was \$0.1 million in the first quarter of 2009 and our effective tax rate was negative 1.9%. During the first quarter of 2009, we recorded a \$2.0 million increase to the valuation allowance on our deferred tax assets.

Loss from equity investments relates to our joint venture in Beirut, an unconsolidated affiliate.

Net loss (income) attributable to noncontrolling interests relates to our joint ventures in India, Japan and certain partnerships.

Net loss attributable to Sbarro, Inc. was \$5.2 million for the first quarter of 2010 as compared to a net loss attributable to Sbarro, Inc. of \$5.7 million for the first quarter of 2009. This decrease in net loss was due to the items discussed above, primarily the reduction in certain operating expenses partially offset by a decrease in comparable unit sales.

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 can negatively impact achieving our projected operating cash flow. Additionally, we experience pressures relating to increased commodity costs, particularly cheese and flour.

Our ability to borrow funds under our revolver is subject to 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 leverage ratio. 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 the new Second Lien Facility, permanently waived a breach of our total net leverage ratio covenant for the fiscal quarter ended December 28, 2008, and 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, 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 on-going, include closing unprofitable stores, renegotiating store lease terms, reducing headcount and revisions to our recipes without affecting our customers, as well as other expense controls. We believe these actions enhance our liquidity going forward and will enable us to be in compliance with our debt covenants under the amendment 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 the next twelve months. 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.

Our minimum trailing twelve month EBITDA covenant, as calculated in accordance with our amended bank credit agreement, increases at the end of the fourth quarter of 2010 by \$3.0 million dollars to \$43.0 million. Our bank credit agreement EBITDA for fiscal 2009 was \$44.7 million. Based upon our 2010 business plan, we expect our bank credit agreement EBITDA for 2010 to exceed this minimum twelve month covenant, however achieving this budgeted bank credit agreement EBITDA amount will be highly dependent on the level of traffic in shopping malls during the fourth quarter holiday shopping season and, as a result, is closely tied to our projected fourth quarter increase in comparable sales percentage change versus the prior year. Our projections assume increases in

same store sales commencing in the second half of the year, with the largest increase in our fourth quarter, and include the achievement of a 1% increase year over year same store sales in 2010. Considering related costs, each 1% decrease in comparable sales for the year may result in a net bank credit agreement EBITDA decrease of approximately \$1.5 million assuming our payroll as a percentage of sales adjusts accordingly as was the case in 2009. Failing to achieve our budgeted 1% increase in comparable sales percentage, or experiencing a decrease in comparable sales percentage that differs from our business plan by more than 2% for the year, or by approximately 6% of same store sales in the fourth quarter, could cause a bank credit agreement EBITDA shortfall that increases the risk of non-compliance with our minimum EBITDA covenants.

Our last twelve month bank credit agreement EBITDA was \$43.5 million as of March 28, 2010 which exceeded our bank covenant of \$40 million. Our bank credit agreement EBITDA was in line with our business plan for the first quarter of 2010. Our April comparable sales were softer than plan as our traffic experienced a decline in the beginning of the second quarter as compared to the first quarter. We are not adjusting our business plan projections based on one month's sales.

Commodity costs can also fluctuate with the economy with cheese currently being the most volatile. A \$.20 variance in the price of block cheese to our projections can produce a variance to our business plan by approximately \$1 million as a benefit or a risk depending on the market.

We continue to implement savings initiatives throughout our operations including, but not limited to, store payroll, strategic closings of underperforming stores, recipe revisions, contract renegotiations, rent reductions, insurance and overhead reductions and evaluate other cost control measures to help mitigate any risk in achieving our 2010 business plan.

If the expected economic recovery and same store sales increases do not occur in a manner consistent with our business plan, or if we are unable to manage costs, each as discussed above, we may not be able to achieve our 2010 operating plan and meet our minimum EBITDA covenants.

Our bank credit agreements provide for certain cures in the event of noncompliance with our minimum EBITDA covenants.

Based upon our cash balance of \$16.2 million at March 28, 2010 and our 2010 business plan, we believe that cash flows generated from operations during 2010 along with our cash on hand and borrowings available under our revolver (\$5.4 million) will be sufficient for us to meet our debt service requirements and fund working capital and capital expenditures for the next twelve months.

We estimate that our annual cash interest expense under the Senior Notes and the Senior Credit Facilities will be approximately \$24.7 million under the amended Senior Credit Facilities, assuming a 2% LIBOR rate. Borrowings under the Second Lien Facility bear interest at 15% per annum payable quarterly in arrears. The Second Lien Facility provides for no amortization of principal. 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. The prepayment of \$25.0 million of the Term Loan from the proceeds of the Second Lien Facility satisfied 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. In 2008, we purchased four QSR locations for approximately \$1.3 million and we repaid \$1.8 million in principal per the terms of our Term Loan. On October 17, 2008 and November 18, 2008, we borrowed \$8.0 million and \$12.0 million respectively under our senior secured revolving facility. As of March 28, 2010, the remaining borrowing availability was \$5.4 million. We believe that aggregate capital expenditures for 2010 will approximate \$8.2 million which we expect will be funded with operating cash. Based upon our projected cash requirements for operations, we believe we have adequate resources to fund operations, working capital needs, capital expenditures, debt servicing requirements and other cash needs for the next twelve months based upon current cash balances and the availability under the revolving credit facility. If necessary, we may adjust the rate of capital expenditures, acquisitions, or the timing and magnitude of other controllable expenditures to meet such requirements.

Sources and Uses of Cash

The following table summarizes our cash and cash equivalents and working capital at the end of the first quarter of 2010 and 2009 and the sources and uses of our cash flows during the first quarter of each of those years (in millions):

	<u>Quarter Ended</u> <u>March 28, 2010</u>	<u>Quarter Ended</u> <u>March 29, 2009</u>
<u>Liquidity at the end of period</u>		
Cash and cash equivalents	\$ 16.2	\$ 17.8
Working Capital	\$ (4.7)	(3.2)
<u>Net cash flows</u>		
Used in operating activities	\$ (8.5)	\$ (11.7)
Used in investing activities	\$ (2.1)	(2.8)
Used in financing activities	\$ (0.2)	(5.9)
Net decrease in cash	<u>\$ (10.7)</u>	<u>\$ (20.4)</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. Based upon our cash balance of \$16.2 million at March 28, 2010 and our 2010 business plan, we believe that cash flows generated from operations during 2010 along with our cash on hand and borrowings available under our revolver (\$5.4 million) will be sufficient for us to meet our debt service requirements and fund working capital and planned capital expenditures for the next twelve months.

Net cash used in operating activities was \$8.5 million during the quarter ended March 28, 2010 as compared to \$11.7 million used in operating activities for the quarter ended March 30, 2009. The decrease in net cash used in the quarter ended March 28, 2010 is mainly due to a \$4.3 million net change in operating assets and liabilities when compared to the prior year, due primarily to the timing of payment of our accounts payable from year-end 2009 and 2008. We historically have our peak annual cash position and highest level of accounts payable and accrued expenses at the end of the holiday season, which coincides with our year end. These payables and accrued expenses are paid during the first quarter of the ensuing year, predominantly using our year-end cash.

Net cash used in investing activities was \$2.1 million for the quarter ended March 28, 2010. Net cash used in investing activities was \$2.8 million for the quarter ended March 29, 2009. Net cash used in the quarter ended March 28, 2010 and March 29, 2009 was mostly related to capital expenditures utilized primarily for restaurant openings and renovation activity.

Net cash used in financing activities was \$0.2 million for the quarter ended March 28, 2010. This net cash used primarily represents distributions of earnings to noncontrolling interests offset by proceeds from short-term loans to noncontrolling interests. The cash used in financing activities was \$5.9 million in the quarter ended March 29, 2009 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 quarter ended March 28, 2010, there were no changes in the accounting policies whose application may have the most significant effect on our reported results of financial position and that require judgments, estimates and assumptions by management that can affect their application and our results of operations and financial position from those discussed under the heading “Critical Accounting Policies and Judgments” in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 27, 2009.

Recent Accounting Pronouncements

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

Certain Relationships and Related Transactions

During the first quarter of 2010, 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 27, 2009.

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 invest 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 \$1.9 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 capped 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 Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in our periodic filings under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including those officers, to allow timely decisions regarding required disclosure.

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 March 28, 2010 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 27, 2009 in Note 8 to the Notes to Consolidated Financial Statements have not materially changed.

Item 1A. Risk Factors

The risk factors included in our Annual Report on Form 10-K for the year ended December 27, 2009 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 27, 2009. The risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 27, 2009 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. (Removed and Reserved)

Item 5. Other information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
*3.1	Restated Certificate of Incorporation of Sbarro, Inc. (Exhibit 3.1 to our Registration Statement on Form S-4, File No. 333-142081)
*3.2	Amended and Restated Bylaws of Sbarro, Inc. (Exhibit 3.2 to our Registration Statement on Form S-4, File No. 333-142081)
*4.1	Indenture dated as of January 31, 2007 among MidOcean SBR Acquisition Corp., Sbarro, Inc., the subsidiary guarantors party thereto from time to time and the Bank of New York, as trustee. (Exhibit 4.1 to our Registration Statement on Form S-4, File No. 333-142081)
*4.2	Registration Rights Agreement dated January 31, 2007 among Sbarro, Inc., Credit Suisse Securities (USA) LLC and Banc of America Securities LLC, as Initial Purchasers. (Exhibit 4.2 to our Registration Statement on Form S-4, File No. 333-142081)
+10.1	Employment Agreement dated January 11, 2010 by and among MidOcean SBR Holdings, LLC, Sbarro Inc. and Mark Censoprano
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.

+ Management contract or compensatory plan.

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: May 10, 2010

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

Date: May 10, 2010

By: /s/ Carolyn M. Spatafora
Carolyn M. Spatafora
Chief Financial Officer
Principal Financial and Accounting Officer

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: May 10, 2010

/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: May 10, 2010

/s/ Carolyn M. Spatafora

Carolyn M. Spatafora
Chief Financial Officer
(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 March 28, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Beaudrault, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

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

Date: May 10, 2010

/s/ Peter Beaudrault

Peter Beaudrault

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

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

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

In connection with the Quarterly Report of Sbarro, Inc. (the "Company") on Form 10-Q for the period ended March 28, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carolyn M. Spatafora, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

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

Date: May 10, 2010

/s/ Carolyn M. Spatafora

Carolyn M. Spatafora
Chief Financial Officer
(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.