

Exhibit H
Unaudited Financial Statement for the
Period Ended September 27, 2005

**THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT.
PROSPECTIVE FRANCHISEES OR BUYERS OF FRANCHISES SHOULD BE ADVISED
THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR
EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.**

NEW WORLD RESTAURANT GROUP, INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 27, 2005 AND DECEMBER 28, 2004
(in thousands, except share information)
(unaudited)

	September 27, 2005	December 28, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,827	\$ 9,752
Restricted cash	789	1,269
Franchise and other receivables, net of allowance of \$1,098 and \$2,475	6,263	7,123
Inventories	5,205	4,941
Prepaid expenses and other current assets	2,500	1,643
Total current assets	21,584	24,728
Restricted cash long-term	901	2,526
Property, plant and equipment, net	33,685	41,855
Trademarks and other intangibles, net	69,825	77,219
Goodwill	4,875	4,875
Debt issuance costs and other assets	5,766	7,253
Total assets	\$ 136,636	\$ 158,456
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 7,134	\$ 8,243
Accrued expenses	28,460	34,836
Short term debt and current portion of long-term debt	280	295
Current portion of obligations under capital leases	16	16
Total current liabilities	35,890	43,390
Senior notes and other long-term debt	160,840	160,840
Obligations under capital leases	18	31
Other liabilities	8,593	9,678
Mandatorily redeemable, Series Z Preferred Stock, \$.001 par value, \$1,000 per share liquidation value; 2,000,000 shares authorized; 57,000 shares issued and outstanding	57,000	57,000
Total liabilities	262,341	270,939
Commitments and contingencies		
Stockholders' deficit:		
Common stock, \$.001 par value; 15,000,000 shares authorized; 9,868,623 and 9,848,713 shares issued and outstanding	10	10
Additional paid-in capital	175,818	175,797
Unamortized stock compensation	(85)	(137)
Accumulated deficit	(301,448)	(288,153)
Total stockholders' deficit	(125,705)	(112,483)
Total liabilities and stockholders' deficit	\$ 136,636	\$ 158,456

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

NEW WORLD RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THIRD QUARTER AND YEAR TO DATE PERIODS ENDED SEPTEMBER 27, 2005 AND SEPTEMBER 28, 2004
(in thousands, except earnings per share and related share information)
(unaudited)

	Third quarter ended:		Year to date ended:	
	Sept 27, 2005	Sept 28, 2004	Sept 27, 2005	Sept 28, 2004
Revenues:				
Retail sales	\$ 87,937	\$ 84,763	\$ 265,912	\$ 256,982
Manufacturing revenues	5,270	4,913	14,905	15,270
Franchise and license related revenues	1,575	1,503	4,373	4,287
Total revenues	94,782	91,179	285,190	276,539
Cost of sales:				
Retail costs	73,941	70,315	219,141	213,805
Manufacturing costs	4,980	4,603	13,880	13,623
Total cost of sales	78,921	74,918	233,021	227,428
Gross profit	15,861	16,261	52,169	49,111
Operating expenses:				
General and administrative expenses	8,868	8,442	26,857	25,260
Depreciation and amortization	5,798	7,005	19,583	20,882
Loss (gain) on sale, disposal or abandonment of assets, net	104	(70)	269	1,395
Charges (adjustments) of integration and reorganization cost	1	(44)	6	(843)
Impairment charges and other related costs	205	402	1,484	402
Income from operations	885	526	3,970	2,015
Other expense (income):				
Interest expense, net	5,805	5,723	17,497	17,426
Other	(106)	(98)	(232)	(197)
Loss before income taxes	(4,814)	(5,099)	(13,295)	(15,214)
Provision (benefit) for state income taxes	-	(147)	-	92
Net loss	<u>\$ (4,814)</u>	<u>\$ (4,952)</u>	<u>\$ (13,295)</u>	<u>\$ (15,306)</u>
Net loss per common share – Basic and Diluted	<u>\$ (0.49)</u>	<u>\$ (0.50)</u>	<u>\$ (1.35)</u>	<u>\$ (1.56)</u>
Weighted average number of common shares outstanding:				
Basic and Diluted	<u>9,868,623</u>	<u>9,842,385</u>	<u>9,859,407</u>	<u>9,842,169</u>

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

NEW WORLD RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR TO DATE PERIODS ENDED SEPTEMBER 27, 2005 AND SEPTEMBER 28, 2004
(in thousands)
(unaudited)

	<u>Sept 27, 2005</u>	<u>Sept 28, 2004</u>
OPERATING ACTIVITIES:		
Net loss	\$ (13,295)	\$ (15,306)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,583	20,882
Stock based compensation expense	52	51
Loss, net of gains, on disposal of assets	269	1,395
Impairment charges and other related costs	1,484	402
Charges (adjustments) of integration and reorganization costs	6	(843)
Provision for (reduction of) losses on accounts receivable, net	(78)	266
Amortization of debt issuance and debt discount costs	1,386	1,387
Changes in operating assets and liabilities:		
Franchise and other receivables	938	(796)
Cash overdraft	-	1,978
Accounts payable and accrued expenses	(7,587)	(10,279)
Other assets and liabilities	3	445
Net cash provided by (used in) operating activities	<u>2,761</u>	<u>(418)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,775)	(5,605)
Proceeds from the sale of equipment	97	134
Net cash used in investing activities	<u>(5,678)</u>	<u>(5,471)</u>
FINANCING ACTIVITIES:		
Proceeds from line of credit	5,445	15,745
Repayments of line of credit	(5,460)	(16,745)
Repayment of other borrowings	(14)	(825)
Proceeds upon warrant exercise	21	1
Net cash used in financing activities	<u>(8)</u>	<u>(1,824)</u>
Net decrease in cash and cash equivalents	(2,925)	(7,713)
Cash and cash equivalents, beginning of period	9,752	9,575
Cash and cash equivalents, end of period	<u>\$ 6,827</u>	<u>\$ 1,862</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 21,411</u>	<u>\$ 20,958</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 572</u>

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

NEW WORLD RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEAR TO DATE PERIOD ENDED SEPTEMBER 27, 2005
(in thousands, except share information)
(unaudited)

	Common Stock		Additional Paid In Capital	Unamortized Stock Compensation	Accumulated Deficit Amount	Total
	Shares	Amount				
Balance, December 28, 2004	9,848,713	\$ 10	\$ 175,797	\$ (137)	\$ (288,153)	\$ (112,483)
Net loss	-	-	-	-	(13,295)	(13,295)
Common stock issued upon exercise of warrants	19,910	-	21	-	-	21
Amortization of stock compensation expense	-	-	-	52	-	52
Balance, September 27, 2005	<u>9,868,623</u>	<u>\$ 10</u>	<u>\$ 175,818</u>	<u>\$ (85)</u>	<u>\$ (301,448)</u>	<u>\$ (125,705)</u>

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

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

1. Basis of Presentation

The accompanying consolidated financial statements of New World Restaurant Group, Inc. and its wholly-owned subsidiaries (collectively, "the Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). As of September 27, 2005, the Company owns, franchises or licenses various restaurant concepts under the brand names of Einstein Bros. Bagels ("Einstein Bros."), Einstein Bros. Café, Noah's New York Bagels ("Noah's"), Manhattan Bagel Company ("Manhattan"), Chesapeake Bagel Bakery ("Chesapeake") and New World Coffee ("New World"). Our business is subject to seasonal trends. Generally, our revenues in the first fiscal quarter are somewhat lower than in the other three fiscal quarters.

The accompanying consolidated financial statements as of September 27, 2005 and for the third quarter and year to date periods ended September 27, 2005 and September 28, 2004 have been prepared without audit. The balance sheet information as of December 28, 2004 has been derived from our audited financial statements. The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments), which are, in our opinion, necessary to fairly state the interim operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States have been omitted pursuant to SEC rules and regulations. The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in our annual report on Form 10-K for the fiscal year ended December 28, 2004. We believe that the disclosures are sufficient for interim financial reporting purposes.

Certain reclassifications have been made to conform previously reported data to the current presentation. These reclassifications have no effect on our net loss or financial position as previously reported.

During the third quarter ended September 27, 2005, we corrected an overstatement of depreciation expense of approximately \$0.6 million related to the first and second quarters in fiscal 2005. Amounts in the year to date period ended September 27, 2005 are properly reflected.

2. Stock Based Compensation

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for our fixed award stock options to our employees. As such, compensation expense is recorded only if the current market price of the underlying common stock exceeded the exercise price of the option on the date of grant. We apply the fair value-basis of accounting as prescribed by Statements of Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) in accounting for our fixed award stock options to our consultants. Under SFAS No. 123, compensation expense is recognized based on the fair value of stock options granted.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

Had compensation cost for stock options granted to employees been determined on the basis of fair value using the following assumptions, net loss and loss per share would have been increased to the following pro forma amounts (in thousands of dollars, except per share amounts):

	Third quarter ended:		Year to date ended:	
	Sept 27, 2005	Sept 28, 2004	Sept 27, 2005	Sept 28, 2004
Net loss, as reported	\$ (4,814)	\$ (4,952)	\$ (13,295)	\$ (15,306)
Deduct: fair value based compensation expense	(199)	(183)	(538)	(628)
Pro forma net loss	(5,013)	(5,135)	(13,833)	(15,934)
Basic and diluted loss per common share:				
As reported	\$ (0.49)	\$ (0.50)	\$ (1.35)	\$ (1.56)
Pro forma	\$ (0.51)	\$ (0.52)	\$ (1.40)	\$ (1.62)

Assumptions:

Expected life of options from date of grant	-	-	4.0 years	4.0 years
Risk-free interest rate	-	-	3.6 - 3.9%	3.1%
Volatility	-	-	100.0%	100.0%
Assumed dividend yield	-	-	0.0%	0.0%

There were no stock options granted during third quarters ended 2005 and 2004.

Based on options granted and various assumptions used to calculate stock based compensation expense as of September 27, 2005, we believe that the adoption of SFAS No. 123 (revised 2004) will result in an increase in expense of approximately \$0.4 million and \$0.1 million during fiscal 2006 and 2007, respectively. If actual events differ from our assumptions used to calculate the expense or if we grant additional options, our financial results could be impacted.

3. Goodwill, Trademarks and Other Intangibles

Intangible assets include both goodwill and identifiable intangibles arising from the allocation of the purchase prices of assets acquired. Goodwill represents the excess of cost over fair value of net assets acquired in the acquisition of Manhattan. Other intangibles consist mainly of trademarks, trade secrets and patents.

Goodwill and other intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. SFAS No. 142, "Goodwill and Other Intangible Assets" requires a two-step approach for testing impairment. First, the estimated fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, then the second step of the impairment test is performed; the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill and other intangible assets is measured as the excess of its carrying amount over its fair value. Intangible assets not subject to amortization consist primarily of the Einstein Bros. and Manhattan trademarks.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

Intangible assets with lives restricted by contractual, legal or other means are amortized over their useful lives and consist primarily of patents used in our manufacturing process. Amortization expense is calculated using the straight-line method over the estimated useful lives of approximately 5 years. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Intangible assets subject to amortization consist of the Chesapeake trademarks.

During the second quarter ended 2004, we began an evaluation of whether each of our brands should be a part of our overall strategic business plan. As a result of this evaluation, we determined that the Chesapeake brand did not fit within our long-term business model. Accordingly, we performed an interim impairment analysis and determined that no impairment existed. We also performed a longevity analysis and determined that the brand had an estimated useful life of four years. The trademarks were previously treated as a non-amortizing intangible and were reclassified to an amortizing intangible at June 29, 2004. During the second quarter ended 2005, we re-visited the long term strategic fit of Chesapeake utilizing the recommendations of a third party consultant previously engaged to present viable alternatives for the brand. Based upon the consultant's recommendations, we began forming an exit strategy that we believed could be completed within one year. Because there had been a change in circumstances, it was necessary to review the asset for impairment. The analysis indicated that the carrying amount of the Chesapeake trademarks was greater than its fair value and accordingly we recorded an impairment charge of \$1.2 million during the quarter ended June 28, 2005. Currently, we are working with our remaining franchisees on an exit strategy that we anticipate completing by the end of fiscal year 2005. We also continue to review the carrying amount of the assets in relation to their fair value. For the year to date period ended September 27, 2005, we have recorded impairment charges of approximately \$1.3 million related to the Chesapeake trademarks.

Trademarks and other intangibles consist of the following (in thousands of dollars):

	September 27, 2005	December 28, 2004
Amortizing intangibles:		
Trade secrets	\$ 5,385	\$ 5,385
Trademarks	743	2,062
Patents-manufacturing process	33,741	33,741
	39,869	41,188
Less accumulated amortization:		
Trade secrets	4,563	3,770
Trademarks	703	387
Patents-manufacturing process	28,584	23,618
	33,850	27,775
Total amortizing intangibles, net	\$ 6,019	\$ 13,413
Non-amortizing intangibles:		
Trademarks	63,806	63,806
Total trademarks and other intangibles, net	\$ 69,825	\$ 77,219

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

4. Debt

Debt consists of the following (in thousands of dollars):

	September 27, 2005	December 28, 2004
\$160 Million Notes	\$ 160,000	\$ 160,000
AmSouth Revolver	-	15
New Jersey Economic Development Authority Note Payable	1,120	1,120
	161,120	161,135
Less current portion of debt	280	295
Long-term debt	\$ 160,840	\$ 160,840

\$160 Million Notes

On July 8, 2003, we issued \$160 million of 13% senior secured notes maturing on July 1, 2008 (“\$160 Million Notes”).

The \$160 Million Notes are guaranteed, fully and unconditionally, jointly and severally, by us and all present and future subsidiaries of ours and are collateralized by substantially all of our assets in which we have an interest. Pursuant to an Intercreditor Agreement, the \$160 Million Notes are subordinate to the AmSouth Revolver as described below.

The \$160 Million Notes contain certain covenants, which, among others, include certain financial covenants such as limitations on capital expenditures and minimum EBITDA as defined in the agreement. The covenants also preclude the declaration and payment of dividends or other distributions to holders of our common stock. These covenants are measured on a rolling twelve-month period and fiscal quarter basis, respectively. This debt contains usual and customary default provisions. As of September 27, 2005, we were in compliance with all our financial and operating covenants.

Interest payments under the \$160 Million Notes are payable in arrears at the rate of 13% per year on July 1 and January 1, commencing January 1, 2004. The notes are redeemable, at our option, in whole or in part at any time after July 1, 2004 at the following redemption prices (as expressed in percentages of the principal amount):

<u>Commencing on July 1,</u>	<u>Percentage</u>
2005	103.0%
2006	102.0%
2007	101.0%
2008 and thereafter	100.0%

Debt issuance costs are capitalized and amortized using the effective interest method over the term of the \$160 Million Notes.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

AmSouth Revolver

On July 8, 2003, we entered into a three-year, \$15 million senior secured revolving credit facility with AmSouth Bank ("AmSouth Revolver"). The AmSouth Revolver was subsequently amended to make technical corrections, clarify ambiguous terms and provide for increased limits with respect to letters of credit. Effective February 11, 2005, the AmSouth Revolver was amended again to increase our letter of credit sub-facility from \$5 million to \$7.5 million.

The AmSouth Revolver is collateralized by substantially all of our assets in which we have an interest and is senior to the \$160 Million Notes pursuant to an Intercreditor Agreement.

The AmSouth Revolver contains certain covenants, which, among others, include certain financial covenants such as limitations on capital expenditures, operating lease obligations, minimum EBITDA as defined in the agreement, operating cash flow coverage ratio and minimum net worth. The covenants also preclude the declaration and payment of dividends or other distributions to holders of our common stock. These covenants are measured on a rolling twelve-month period at each fiscal quarter or annually at year-end. Additional covenant restrictions exist if the total borrowings, including outstanding letters of credit exceed \$10.0 million. This debt also contains usual and customary default provisions. As of September 27, 2005, we are in compliance with all of our financial and operating covenants.

Interest payments under the AmSouth Revolver are payable in arrears on the first of each month. The net borrowings under the AmSouth Revolver bear an interest rate equal to the base rate plus an applicable margin with the base rate being the AmSouth Bank "prime rate" and the applicable margin being based on our fixed charge coverage ratio with a minimum and maximum applicable margin of 0.5% and 2.5% respectively. As of September 27, 2005, the prime interest rate under the AmSouth Revolver was 6.75%.

We are required to pay an unused credit line fee of 0.50% per annum on the average daily unused amount. The unused line fee is payable monthly in arrears. Additionally, we are required to pay a letter of credit fee based on the average daily undrawn face amount for each letter of credit issued, of an applicable margin being based on our fixed charge coverage ratio with a minimum and maximum applicable margin of 2.0% and 4.5% respectively. Letters of credit reduce our availability under the AmSouth Revolver. At September 27, 2005, we had \$7.1 million of letters of credit outstanding. The letters of credit expire on various dates during 2006, are automatically renewable for one additional year and are payable upon demand in the event that we fail to pay certain workers compensation claims. Our availability under the AmSouth Revolver was \$7.9 million at September 27, 2005.

Debt issuance costs are capitalized and amortized using the effective interest method over the term of the AmSouth Revolver.

New Jersey Economic Development Authority Note Payable

In December 1998, Manhattan Bagel Company, Inc. entered into a note payable in the principal amount of \$2,800,000 with the New Jersey Economic Development Authority ("NJEDA") at an interest rate of 9% per annum. Principal is paid annually and interest is paid quarterly. The note matures on December 1, 2008 and is secured by the assets of Manhattan Bagel Company, Inc.

On July 3, 2003, we placed an advanced funding of the note in escrow to enact a debt defeasance as allowed for in the agreement. This advanced funding is shown as restricted cash and the note is included in both current portion and long-term portion of debt in the September 27, 2005 and December 28, 2004 consolidated balance sheets in accordance with the payment terms. This classification will continue until the note is fully paid from the escrow amount proceeds.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

5. Net Loss Per Common Share

In accordance with SFAS No. 128, "Earnings per Share," we compute basic net loss per common share by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period.

Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock and potential common stock equivalents outstanding during the period, if dilutive. Potential common stock equivalents include incremental shares of common stock issuable upon the exercise of stock options. The effects of potential common stock equivalents have not been included in the computation of diluted net loss per share as their effect is anti-dilutive.

The following table summarizes the weighted average number of common shares outstanding, as well as sets forth the computation of basic and diluted net loss per common share for the periods indicated (in thousands of dollars, except share and per share data):

	Third quarter ended:		Year to date ended:	
	Sept 27, 2005	Sept 28, 2004	Sept 27, 2005	Sept 28, 2004
Weighted average shares outstanding	<u>9,868,623</u>	<u>9,842,385</u>	<u>9,859,407</u>	<u>9,842,169</u>
Net loss	<u>\$ (4,814)</u>	<u>\$ (4,952)</u>	<u>\$ (13,295)</u>	<u>\$ (15,306)</u>
Basic and diluted net loss per share	<u>\$ (0.49)</u>	<u>\$ (0.50)</u>	<u>\$ (1.35)</u>	<u>\$ (1.56)</u>

Stock options and warrants to purchase an aggregate of 1,841,062 and 1,802,120 shares of common stock were outstanding as of September 27, 2005 and September 28, 2004, respectively. These stock options and warrants were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

6. Income Taxes

We record deferred tax assets and liabilities based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted statutory tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. The recorded deferred tax assets are reviewed for impairment on a quarterly basis by reviewing our internal estimates for future net income. If we determine it to be more likely than not that the recovery of the asset is in question in the immediate, foreseeable future, we record a valuation allowance. On September 27, 2005 and December 28, 2004, we recorded a full valuation allowance against our net deferred tax asset. We will continue to record valuation allowances against additional deferred tax assets until such time that it is more likely than not that some portion or all of the deferred tax assets will be realized.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

7. Loss (Gain) on Sale, Disposal or Abandonment of Assets

During the second quarter ended 2004, we recorded a loss of approximately \$1.3 million primarily due to the disposal of menu boards as a result of new product offerings and due to the abandonment of leasehold improvements related to closed restaurants and our administrative facilities located in New Jersey.

8. Charges (Adjustments) of Integration and Reorganization Cost

Charges (adjustments) of integration and reorganization cost primarily represents adjustments to previously recorded liabilities associated with the closing and corporate consolidation of our Eatontown facilities during 2002. During April 2004, we reached an agreement with the landlord of our Eatontown facility to settle outstanding litigation. Previously recorded integration and reorganization estimates associated with closing this facility resulted in a benefit of \$700,000 during the first quarter ended 2004 as a result of this settlement.

9. Impairment Charges and Other Related Costs

In accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, impairment losses are recorded on long-lived assets on a restaurant-by-restaurant basis whenever impairment indicators are determined to be present. We consider a history of cash flow losses to be the primary indicator of potential impairment for individual restaurant locations. We determine whether a restaurant location is impaired based on expected undiscounted future cash flows, considering location, local competition, current store management performance, existing pricing structure and alternatives available for the site. If impairment exists, the amount of impairment is measured as the excess of the carrying amount of the asset over its fair value as determined utilizing the estimated discounted future cash flows or the expected proceeds, net of costs to sell, upon sale of the asset.

For the year to date period ended September 27, 2005, we recorded approximately \$0.1 million in impairment charges related to company-owned stores and approximately \$0.1 million in exit costs from the decision to close one restaurant. Additionally, as further explained in Note 3, we recorded approximately \$1.3 million in impairment charges related to the Chesapeake trademarks.

10. Litigation and Contingencies

We are subject to claims and legal actions in the ordinary course of our business, including claims by our franchisees, licensees and employees or former employees. We do not believe that an adverse outcome in any currently pending or threatened matter would have a material adverse effect on our business, results of operations or financial condition.

On July 31, 2002, Tristan Goldstein and Valerie Bankhordar, former store managers, filed a putative class action against Einstein and Noah Corp. ("ENC") in the Superior Court for the State of California, County of San Francisco. The plaintiffs alleged that ENC failed to pay overtime wages to managers and assistant managers of its California stores who were improperly designated as exempt employees. In April 2004, we reached an agreement in principle to settle the litigation, subject to final court approval. The final hearing on the fairness of the settlement has been scheduled for January 4, 2006. Amounts representing our estimate to settle this litigation were previously recorded in general and administrative expenses during fiscal 2003 and did not have a material adverse effect on our consolidated financial condition or results of operations.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

On September 14, 2004, Atlantic Mutual Insurance Company brought an action in the Superior Court of New Jersey Law Division: Morris County, against the Company, Anthony Wedo, William Nimmo, Jerold Novack, Ramin Kamfar, Lexington Insurance Company, and XL Specialty Insurance Company seeking declaratory judgment on insurance coverage issues in previously resolved litigation against Novack, our former Chief Financial Officer, and Kamfar, our former Chairman of the Board and Chief Executive Officer. Mr. Kamfar cross-claimed against us, claiming a right to be indemnified and for certain costs and attorneys fees incurred by him. The Company has put National Union, the Company's officers and directors liability insurer for the applicable time period, on notice that the Company believes that Kamfar's advancement and indemnity claims are an insured loss under the Company's policy with National Union. The parties have resolved matters with Mr. Kamfar and have reached an agreement in principle as to the other issues. The resolution of this lawsuit did not have a material effect on our consolidated financial condition or results of operations.

Guarantees

Prior to 2001, we would occasionally guarantee leases for the benefit of certain of our franchisees. None of the guarantees have been modified since their inception and we have since discontinued this practice. Current franchisees are the primary lessees under the vast majority of these leases. Under the lease guarantees, we may be required by the lessor to make all of the remaining monthly rental payments or property tax and common area maintenance payments if the franchisee does not make the required payments in a timely manner. However, we believe that most, if not all, of the franchised locations could be subleased to third parties minimizing our potential exposure. Additionally, we have indemnification agreements with our franchisees under which the franchisees would be obligated to reimburse us for any amounts paid under such guarantees. Historically, we have not been required to make such payments in significant amounts. We record a liability for our exposure under the guarantees in accordance with SFAS No. 5, "Accounting for Contingencies," following a probability related approach. In the event that trends change in the future, our financial results could be impacted. As of September 27, 2005, we had outstanding guarantees of indebtedness under certain leases of approximately \$0.7 million. Approximately \$163,000 is reflected in accrued expenses in our consolidated balance sheet at September 27, 2005.

Insurance

We are insured for losses related to health, general liability and workers' compensation under large deductible policies. The insurance liability represents an estimate of the ultimate cost of claims incurred and unpaid as of the balance sheet date. The estimated liability is established based on actuarial estimates, is discounted at 10% based upon a discrete analysis of actual claims and historical data and is reviewed on a quarterly basis to ensure that the liability is appropriate. If actual trends, including the severity or frequency of claims differ from our estimates, our financial results could be favorably or unfavorably impacted.

NEW WORLD RESTAURANT GROUP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Third Quarter and Year to Date Periods Ended September 27, 2005 and September 28, 2004

11. Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004) entitled "Share-Based Payment" that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for a) equity instruments of the enterprise or b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The Statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and generally would require instead that such transactions be accounted for using a fair-value-based method. This Statement is to be implemented at the beginning of the next fiscal year that begins after June 15, 2005. Based on options granted and various assumptions used to calculate stock based compensation expense as of September 27, 2005, we believe that the adoption will result in an increase in expense of approximately \$0.4 million and \$0.1 million during fiscal 2006 and 2007, respectively. If actual events differ from our assumptions used to calculate the expense or if we grant additional options, our financial results could be impacted.

We have considered all other recently issued accounting pronouncements and do not believe that the adoption of such pronouncements will have a material impact on our financial statements.

12. Related Party Transactions

Greenlight Capital, L.L.C. and its affiliates beneficially own approximately 97 percent of our common stock on a fully diluted basis. As a result, Greenlight has sufficient voting power without the vote of any other stockholders to determine what matters will be submitted for approval by our stockholders, to approve actions by written consent without the approval of any other stockholders, to elect all of our board of directors, and among other things, to determine whether a change in control of our company occurs.