DEPARTMENT OF CORPORATIONS
APR 04 2006
SACRAMENTO OFFICE

January 3, 2006, options to purchase 1,328 shares of common stock at a weighted average exercise price of $49.08 per share and a weighted average remaining contractual life of 3.15 years remained outstanding under this plan.

2003 Executive Employee Incentive Plan

On November 21, 2003, our board of directors adopted the Executive Employee Incentive Plan, amended on December 19, 2003 (2003 Plan). The 2003 Plan provides for granting incentive stock options to employees and granting non-statutory stock options to employees and consultants. Unless terminated sooner, the 2003 Plan will terminate automatically in December 2013. The board of directors has the authority to amend, modify or terminate the 2003 Plan, subject to any required approval by our stockholders under applicable law or upon advice of counsel. No such action may affect any options previously granted under the 2003 Plan without the consent of the holders. There are 1,150,000 shares issuable pursuant to options granted under the 2003 Plan. Options typically vest in part based upon the passage of time and, in part, upon our financial performance. Options that do not vest due to the failure to achieve specific financial performance criteria are forfeited. Options to purchase approximately 424,208 shares of our common stock, which are not yet exercisable, are subject to company performance and are treated as variable options. We expect that all of the non-vested awards at January 3, 2006 will eventually vest based on company performance. As of January 3, 2006, there were 260,001 shares reserved for future issuance under the 2003 Plan.

2004 Stock Option Plan for Independent Directors

On December 19, 2003, our board of directors adopted the Stock Option Plan for Independent Directors, effective January 1, 2004, (2004 Directors' Plan). Our board of directors may amend, suspend, or terminate the 2004 Directors' Plan at any time, provided, however, that no such action may adversely affect any outstanding option without the option holders consent. A total of 200,000 shares of common stock have been reserved for issuance under the 2004 Directors' Plan. The 2004 Directors' Plan provides for the automatic grant of non-statutory stock options to independent directors on January 1 of each year and a prorated grant of options for any director elected during the year. Options become exercisable six months after the grant date and are exercisable for 5 years from the date of grant unless earlier terminated. As of January 3, 2006, there were 94,192 shares reserved for future issuance under the 2004 Directors' Plan.

Option Activity

Transactions during fiscal 2005, 2004 and 2003 were as follows:

	Number of Options			Weighted Average Exercise Price		
	2005	2004	2003	2005	2004	2003
Outstanding, beginning of year	803,341	878,345	86,647	$ 3.95	$ 4.12	$ 17.46
Granted	606,308	45,000	877,495	2.62	3.25	4.05
Exercised	—	—	—	—	—	—
Forfeited	(412,497)	(120,004)	(85,797)	3.52	3.00	16.89
Outstanding, end of year	997,152	803,341	878,345	$ 3.31	$ 3.95	$ 4.12
Exercisable, end of year	353,237	32,341	2,345	$ 3.82	$ 5.92	$ 33.99

The following table summarizes information about stock options outstanding at January 3, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number of Options	Weighted Average Exercise Price
$2.25 – $4.00	903,307	$ 3.12	8.28	351,892	$ 3.64
$4.01 – $10.00	93,330	4.59	7.19	830	14.57
$100.00 – $241.00	515	110.04	3.82	515	110.04
	997,152	$ 3.31	8.18	353,237	$ 3.82

Warrants

As of January 3, 2006, we have 739,961 warrants outstanding and exercisable to purchase shares of our common stock. The warrants have exercise prices ranging from $0.60 to $663.00 per share, of which 737,449 are exercisable at $1.20 or less per share, and have an expiration date of June 20, 2006. Such warrants were issued in connection with financings and certain other services (see Note 13 for further information regarding the accounting, conversion and valuation of warrants). Transactions during fiscal 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Outstanding at beginning of year	961,391	968,337	659,328
Issued	—	—	541,027
Exercised	(216,359)	(6,885)	
Converted	—	—	(227,747)
Forfeited	(5,071)	(61)	(4,271)
Outstanding and exercisable at end of year	739,961	961,391	968,337

17. SAVINGS PLAN

We sponsor a qualified defined contribution retirement plan covering eligible employees of New World Restaurant Group (the 401(k) Plan). Employees, excluding officers, are eligible to participate in the plan if they meet certain compensation and eligibility requirements. The 401(k) Plan allows participating employees to defer the receipt of a portion of their compensation and contribute such amount to one or more investment options. We have accrued a discretionary match of approximately 35% of the participants' elective contribution for 2005. Our contribution to the plan was $0.3 million, $0.3 million and $0.2 million for 2005, 2004 and 2003, respectively. Employer contributions vest at the rate of 100% after three years of service.

18. INTEGRATION AND REORGANIZATION COSTS

2001 Restructuring

During the quarter ended July 3, 2001, we implemented a plan to consolidate our two dough manufacturing facilities on the West Coast, eliminate duplicative labor lines of assembly, and terminate certain lease obligations inclusive of several restaurant and other locations. We initially recorded a restructuring accrual of approximately $4.4 million associated with this restructuring plan. Approximately

$1.0 million of this charge represented a write-off of equipment and leasehold improvements that were either abandoned or deemed unusable by us.

The following table presents the activity and balances related to the 2001 restructuring accrual:

	Facility Consolidation Costs	Severance Costs	Contract Termination and Other Costs	Store Lease Termination	Total
Initial accrual	$ 379	$ 151	$ 233	$ 2,629	$ 3,392
Application of costs against the accrual	—	—	(204)	(293)	(497)
Adjustments to the accrual	—	—	29	12	41
Balance at January 1, 2002	$ 379	$ 151	$ 58	$ 2,348	$ 2,936
Application of costs against the accrual	(68)	(229)	(94)	(907)	(1,298)
Adjustments to the accrual	—	85	43	(702)	(574)
Balance at December 31, 2002	$ 311	$ 7	$ 7	$ 739	$ 1,064
Application of costs against the accrual	(266)	—	(14)	(229)	(509)
Adjustments to the accrual	(32)	(7)	7	(181)	(213)
Balance at December 30, 2003	$ 13	$ —	$ —	$ 329	$ 342
Application of costs against the accrual	(15)	—	—	(168)	(183)
Adjustments to the accrual	2	—	—	(140)	(138)
Balance at December 28, 2004	$ —	$ —	$ —	$ 21	$ 21
Application of costs against the accrual	—	—	—	(26)	(26)
Adjustments to the accrual	—	—	—	5	5
Balance at January 3, 2006	$ —	$ —	$ —	$ —	$ —

2002 Restructuring

During the quarter ended October 1, 2002, we implemented a plan to shut down our dough manufacturing facilities on the East Coast. During the quarter ended December 31, 2002, we implemented a plan to terminate the lease obligation for the Eatontown location. We vacated the Eatontown location in the last week of 2002. When initiated, the restructuring plans were expected to take approximately one year to complete, subject to our ability to sublease the Eatontown facility. We ultimately recorded a $4.8 million charge associated with the restructuring plans in 2002. Approximately $2.2 million of this charge represented a write-off of equipment and leasehold improvements that were either abandoned or deemed unusable by us. In the fourth quarter of fiscal 2003, we became aware that the Eatontown facility was in the process of being sold and that the landlord had engaged a valuation expert to determine the total cost associated with our vacating the facility. Based upon the results of this study, we adjusted our initial charge to our estimate of the ultimate liability on the Eatontown facility. During April 2004, we reached an agreement with the landlord of the Eatontown facility to settle outstanding litigation. Previously recorded integration and reorganization estimates associated with closing this facility were adjusted to reflect a reduction of the prior year's accrued cost of $0.7 million.

The following table presents the activity and balances related to the 2002 restructuring accrual:

	Facility Consolidation Costs	Severance Costs	Contract Termination and Other Costs	Total
Initial accrual	$ 1,447	$ 787	$ 300	$ 2,534
Application of costs against the accrual	—	(662)	(168)	(830)
Balance at December 31, 2002	$ 1,447	$ 125	$ 132	$ 1,704
Application of costs against the accrual	(160)	(90)	(68)	(318)
Adjustments to the accrual	2,413	(35)	(33)	2,345
Balance at December 30, 2003	$ 3,700	$ —	$ 31	$ 3,731
Application of costs against the accrual	(3,000)	—	—	(3,000)
Adjustments to the accrual	(700)	—	(31)	(731)
Balance at December 28, 2004	$ —	$ —	$ —	$ —

19. LOSS (GAIN) ON SALE, DISPOSAL OR ABANDONMENT OF ASSETS

During fiscal 2004, we recorded a loss on disposal or abandonment of assets of approximately $0.1 million due to the disposal of menu boards as a result of our new menu offerings and approximately $1.5 million due to the abandonment of leasehold improvements related to closed restaurants and our administrative facilities located in New Jersey. The loss on disposal or abandonment of assets was offset by a gain of approximately $90,000 on the sale of the assets of Willoughby's as further described below.

20. SALE OF WILLOUGHBY'S COFFEE AND TEA

Effective October 6, 2004, we executed an Asset Purchase Agreement and sold the assets of Willoughby's to the original founders. The Willoughby's business consisted of a coffee roasting plant, three retail locations and an office space.

Components of the asset sale included, but were not limited to:

- The "Willoughby's Coffee & Tea" trade name, trademark and logo,
- The "Serious Coffee" trademark,
- The willoughbyscoffee.com domain name and existing website,
- All property and equipment of Willoughby's, and
- Cash in drawer, accounts receivable, and inventory at all Willoughby's locations.

Under the terms of agreement, we sold the assets for a total sales price of approximately $0.4 million, which was received in cash. In connection with the sale of Willoughby's, we also executed a two-year supply agreement to purchase coffee for our New World Coffee cafés from the buyer.

We have considered SFAS No. 144 in our determination that the revenues, cost of sales, other operating expenses and the net book value of the assets related to the sale of the coffee roasting plant and three retail locations included in the Willoughby's business were immaterial in relation to our Einstein Bros., Noah and Manhattan restaurants, as well as the consolidated financial statements taken as a whole. Accordingly, we have not presented discontinued operations in the accompanying consolidated statements of operations, nor have we reflected assets as held for sale in the accompanying consolidated balance sheet as of December 28, 2004. We recognized a gain from the sale of approximately $90,000 during the year ended December 28, 2004.

21. INCOME TAXES

The provision for income taxes consists of the following:

	2005	2004	2003
	(in thousands of dollars)		
Current:			
Federal	$—	$ —	$ —
State	—	(49)	812
Total current income tax expense (benefit)	—	(49)	812
Deferred:			
Federal	—	—	—
State	—	—	—
Total deferred income tax benefit	—	—	—
Total income tax benefit (expense)	$ —	$ (49)	$ 812

A reconciliation between the reported provision for income taxes and the amount computed by applying the statutory federal income tax rate of 35% to loss before income taxes is as follows:

	2005	2004	2003
	(in thousands of dollars)		
Expected tax benefit at 35%	$ (4,906)	$ (6,109)	$ (25,448)
State net of federal benefit	(390)	(611)	(1,601)
Loss on extinguishment of debt	—	—	8,052
Other, net	705	(469)	2,303
Change in valuation allowance	4,591	7,140	17,506
Total benefit (provision) for taxes	$ —	$ (49)	$ 812

The income tax effects of temporary differences that give rise to significant portions of deferred tax assets as of January 3, 2006 and December 28, 2004 are as follows:

	2005	2004
	(in thousands of dollars)	
Deferred tax assets		
Operating loss carryforwards	$ 59,958	$ 57,412
Capital loss carryforwards	1,237	1,237
Accrued expenses	1,317	2,424
Allowances for doubtful accounts	183	893
Other assets	58	32
Property, plant and equipment	15,852	12,016
Total gross deferred tax asset	78,605	74,014
Less valuation allowance	(78,605)	(74,014)
Total deferred tax liability	$ —	$ —

For income tax purposes, at January 3, 2006, we had net operating loss carryforwards of approximately $157 million, expiring at various dates through 2025. The utilization of approximately $103 million of the aforementioned net operating loss carryforwards is subject to an annual limitation under the provisions of Section 382 of the Internal Revenue Code.

At this time, we believe it is more likely than not that our net deferred tax asset will not be realized. Accordingly, a valuation allowance has been recorded against the deferred tax asset at January 3, 2006 and December 28, 2004. Should we conclude that the deferred tax asset is, at least in part, realizable, the valuation allowance will be reversed to the extent of such expected realizability.

22. SUPPLEMENTAL CASH FLOW INFORMATION

	2005	2004	2003
	(in thousands of dollars)		
Cash paid during the period for:			
Interest	$ 32,084	$ 21,166	$ 17,284
Non-cash investing and financing activities:			
Non-cash dividends and accretion on preferred stock	$ —	$ —	$ 14,423
Conversion of Bridge Loan and Bond Purchase Agreement to Mandatorily Redeemable Series F preferred stock	$ —	$ —	$ 18,588
Conversion of Mandatorily Redeemable Series F to Mandatorily Redeemable Series Z preferred stock	$ —	$ —	$ 57,000
Conversion of Mandatorily Redeemable Series F to common stock	$ —	$ —	$ 61,706
Non-cash warrant issuance	$ —	$ —	$ 1,854
Non-cash option issuance	$ —	$ 205	$ —
Non-cash purchase of equipment through capital leasing	$ 33	$ 51	$ —

23. RELATED PARTY TRANSACTIONS

Several of our stockholders or former stockholders, including BET Associates LP (BET), Halpern Denny, Greenlight Capital, LLC and certain of their affiliates (Greenlight), have been involved in our

financings, refinancings, have purchased our debt and equity securities and were involved in our equity recapitalization as further described in Note 13. Below, we have summarized related party transactions involving these investors during the 2005, 2004 and 2003 fiscal years.

Greenlight Capital, LLC and its affiliates

E. Nelson Heumann is the chairman of our board of directors and is a current employee of Greenlight. Greenlight and its affiliates beneficially own approximately 95 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.

In July 2003, Greenlight purchased all of the outstanding Einstein/Noah Bagel Corp. 7.25% Convertible Debentures due 2004 from Jefferies. Greenlight also purchased $35.0 million of our $160 Million Notes. Upon consummation of the equity recapitalization, we issued 4,337.481 shares of Series F to Greenlight in full payment of the outstanding Bridge Loan. The shares of Series F were converted into common stock in the equity recapitalization.

In 2003, pursuant to the equity recapitalization, we reimbursed Greenlight for legal fees and disbursements incurred in connection with their investment in our company and the equity restructuring in the amount of $0.2 million.

In January 2006, we called for redemption the investment Greenlight held in our $160 Million Notes. The notes were redeemed from the proceeds our refinancing in February 2006 as further described in Note 27.

Leonard Tannenbaum, MYMF Capital LLC and BET

Leonard Tannenbaum, a director, was the Managing Director of MYFM Capital LLC until July 2004. In July 2004, Mr. Tannenbaum founded Fifth Street Capital LLC and is the managing partner. He is also a limited partner and 10% owner in BET. His father-in-law is Bruce Toll, an affiliate of BET. On May 30, 2002, we entered into a Loan and Security Agreement (the facility) with BET, which provided for $75.0 million revolving loan facility at 11% interest. The facility was secured by substantially all of our assets. In February 2003, we executed an amendment to the facility to extend the maturity of the facility from March 31, 2003 to June 1, 2003. From February 1, 2003 to June 1, 2003, the interest rate increased from 11% to 13% per annum. BET and MYFM Capital LLC received an extension fee of $0.2 million in connection with the amendment, payable at maturity, and an additional $0.1 million because the facility was not paid in full by June 2, 2003. After June 1, 2003, the interest rate for borrowings under the facility was 15% per annum, and MYFM Capital LLC received a $30,000 fee for entering into a standstill agreement with us. The facility was repaid with the proceeds of issuance of the $160 Million Facility in July 2003, and BET received $3,000 for reimbursement of legal fees and expenses. BET purchased $7.5 million of our $160 Million Notes and Mr. Tannenbaum purchased an additional $0.5 million of our $160 Million Notes in the market.

In January 2006, we called for redemption the investment BET and Mr. Tannenbaum held in our $160 Million Notes. The notes were redeemed from the proceeds our refinancing in February 2006 as further described in Note 27.

Halpern Denny

In 2003, pursuant to the equity recapitalization, we reimbursed Halpern Denny for legal fees and disbursements incurred in connection with their investment in our company and the equity restructuring in the amounts of $0.2 million.

Jill B.W. Sisson

On December 8, 2003, we entered into a consulting agreement with Ms. Jill B. W. Sisson to provide legal, consulting and advisory services to us and to serve as General Counsel and Secretary. The agreement provided that Ms. Sisson be paid $15,833 per month and, on December 19, 2003, was granted options to purchase 75,000 shares of common stock pursuant to the 2003 Plan. The options vest in part, upon length of service and in part, upon the achievement of specified financial goals by us. In addition, Ms. Sisson is eligible to receive annual additional premium compensation based upon our performance and personal performance and has subsequently received an increase to $18,750 per month. Ms. Sisson will also be reimbursed for reasonable and necessary out-of-pocket expenses. The agreement provides for non-solicitation of our employees for a year after termination of the agreement, and can be terminated by either party upon 30 days notice.

24. PURCHASE COMMITMENTS

We have obligations with certain of our major suppliers of raw materials (primarily frozen bagel dough and cream cheese) for minimum purchases both in terms of quantity and pricing on an annual basis. Furthermore, from time to time, we will commit to the purchase price of certain commodities that are related to the ingredients used for the production of our bagels. On a periodic basis, we review the relationship of these purchase commitments to our business plan, general market trends and our assumptions in our operating plans. If these commitments are deemed to be in excess of the market, we will expense the excess purchase commitment to cost of sales, in the period in which the shortfall is determined. The total of our future purchase obligations at January 3, 2006 was approximately $9.1 million.

25. LITIGATION

We are subject to claims and legal actions in the ordinary course of our business, including claims by or against our franchisees, licensees and employees or former employees and/or contract disputes. 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 restaurant 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 for failure to pay overtime wages to managers and assistant managers of the California Noah's restaurants. In April 2004, we agreed to settle the litigation, which agreement was subsequently approved by the court in January 2006. Amounts representing our estimate to settle this litigation were previously recorded in general and administrative expenses during fiscal 2003, were paid subsequent to fiscal year-end 2005 and did not have a material adverse effect on our consolidated financial condition or results of operations.

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, certain of its former officers and

directors and insurers seeking declaratory judgment on insurance coverage issues in previously resolved litigation against Jerold Novack and Ramin Kamfar, former officers. Mr. Kamfar cross-claimed against us, claiming a right to be indemnified for expenses. The Company, Mr. Kamfar, Atlantic Mutual Insurance Company and Lexington Insurance Company settled the lawsuit in February 2006. The resolution of this lawsuit did not have a material effect on our consolidated financial condition or results of operations. Because the Company asserts that the advancement and indemnity claims are an insured loss under the Company's policy with National Union, the Company has filed an arbitration proceeding against National Union, the Company's officers and directors liability insurer for the applicable time period.

26. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table summarizes the unaudited consolidated quarterly results of operations for fiscal 2005 and 2004:

	Fiscal year 2005:			
	1st Quarter (13 wks)	2nd Quarter (13 wks)	3rd Quarter (13 wks)	4th Quarter (14 wks)
	(in thousands of dollars, except per share amounts)			
Revenue	$ 93,295	$ 97,113	$ 94,782	$ 103,903
Income from operations	$ 1,664	$ 1,421	$ 885	$ 5,398
Net loss	$ (4,198)	$ (4,283)	$ (4,814)	$ (723)
Net loss available to common shareholders	$ (4,198)	$ (4,283)	$ (4,814)	$ (723)
Basic and diluted loss per share	$ (0.43)	$ (0.43)	$ (0.49)	$ (0.07)

	Fiscal year 2004:			
	1st Quarter (13 wks)	2nd Quarter (13 wks)	3rd Quarter (13 wks)	4th Quarter (14 wks)
	(in thousands of dollars, except per share amounts)			
Revenue	$ 91,196	$ 94,164	$ 91,179	$ 97,321
Income (loss) from operations	$ 1,661	$ (172)	$ 526	$ 3,443
Net loss	$ (4,130)	$ (6,224)	$ (4,952)	$ (2,099)
Net loss available to common shareholders	$ (4,130)	$ (6,224)	$ (4,952)	$ (2,099)
Basic and diluted loss per share	$ (0.42)	$ (0.63)	$ (0.50)	$ (0.21)

27. SUBSEQUENT EVENT—DEBT REDEMPTION AND REFINANCING

Debt Redemption and Refinancing—On February 28, 2006, we completed a debt refinancing that redeemed our $160 Million Notes and retired our $15 million AmSouth Revolver. Our new debt obligations consist of the following:

- $15 million revolving credit facility;
- $80 million first lien term loan;
- $65 million second lien term loan; and
- $25 million subordinated term loan.

$15 Million Revolving Credit Facility—the Revolving Facility has a maturity date of March 31, 2011 and provides for interest based upon the prime rate or LIBOR plus a margin. The margin may increase or decrease up to 0.25% based upon our consolidated leverage ratio as defined in the agreement. The initial

margin is at prime plus 2.00% or LIBOR plus 3.00%. This facility may be used in whole or in part for letters of credit.

$80 Million First Lien Term Loan—the First Lien Term Loan has a maturity date of March 31, 2011 and provides for a floating interest rate based upon the prime rate or LIBOR plus a margin. The margin may increase or decrease 0.25% based upon our consolidated leverage ratio as defined in the agreement. The initial margin is prime plus 2.00% or LIBOR plus 3.00%. The facility is fully amortizing with quarterly principal reductions and interest payments over the term of the loan as follows:

For the 2006 fiscal year ending January 2, 2007	$1.425 million
For the 2007 fiscal year ending January 1, 2008	$3.325 million
For the 2008 fiscal year ending December 30, 2008	$5.950 million
For the 2009 fiscal year ending December 29, 2009	$11.250 million
For the 2010 fiscal year ending December 28, 2010	$32.150 million
For the 2011 fiscal quarter ending March 29, 2011	$25.900 million

In addition to the repayment schedule discussed above, the First Lien Term Loan also requires additional principal reductions based upon a percentage of excess cash flow as defined in the loan agreement in any fiscal year. The First Lien Term Loan also provides us the opportunity to repay the Second Lien Term Loan or the subordinated loan with the proceeds of a capital stock offering provided that certain consolidated leverage ratios are met.

In the event that we have not extended the maturity date of the Series Z to a date that is on or after July 26, 2012 or redeemed the Series Z by December 30, 2008, then the Revolving Facility and the First Lien Term Loan will mature on December 30, 2008.

$65 Million Second Lien Term Loan—the Second Lien Term Loan has a maturity date of February 28, 2012 and provides for a floating interest rate based upon the prime rate plus 5.75% or LIBOR plus 6.75%. Interest is payable in arrears on a quarterly basis. The Second Lien Term Loan has a prepayment penalty of 2.0% and 1.0% of the amount of any such optional prepayment that occurs prior to the first or second anniversary date, respectively. The Second Lien Term Loan requires principal reductions based upon a percentage of excess cash flow (as defined in the credit agreement) in any fiscal year and is also subject to certain mandatory prepayment provisions. In the event that we have not extended the maturity date of the Series Z to a date that is on or after July 26, 2012 or redeemed the Series Z by March 30, 2009, then the Second Lien Term Loan will mature on March 30, 2009.

$25 Million Subordinated Term Loan—the Subordinated Term Loan has a maturity date of February 28, 2013, carries a fixed interest rate of 13.75% per annum and requires a quarterly cash interest payment in arrears at 6.5% and quarterly paid-in kind interest that is added to the principal balance outstanding at 7.25%. The Subordinated Term Loan is held by affiliates of Greenlight Capital. Based on an original issue discount of 2.5%, proceeds of approximately $24.4 million were loaned to the Company. The Subordinated Term Loan is subject to certain mandatory prepayment provisions. In the event that we have not extended the maturity date of the Series Z to a date that is on or after July 26, 2013 or redeemed the Series Z by June 29, 2009, then the Subordinated Term Loan will mature on June 29, 2009.

All the loans have usual and customary covenants including consolidated leverage ratios, fixed charge coverage ratios, limitations on capital expenditures, etc. The loans are all guaranteed by our material subsidiaries. The Revolving Facility and the First Lien Term Loan and the related guarantees are secured

by a first priority security interest in all of our assets and our material subsidiaries, including a pledge of 100% of our interest in all shares of capital stock (or other ownership or equity interests) of each material subsidiary. The Second Lien Term Loan and the related guarantees are secured by a second priority security interest in all our assets and our material subsidiaries, including a pledge of 100% of our interest in all shares of capital stock (or other ownership or equity interests) of each material subsidiary. The Subordinated Term Loan is unsecured.

As a result of this refinancing, and based upon LIBOR rates in effect as of February 28, 2006, our average cash interest rate is expected to improve to approximately 10.2% as compared with 13.0% on the debt it replaced.

NEW WORLD RESTAURANT GROUP, INC.

Schedule II - Valuation and Qualifying Accounts

(in thousands of dollars)

	Balance at beginning of period	Additions (a)	Deductions (b)	Balance at end of period
For the fiscal year ended December 30, 2003:				
Allowance for doubtful accounts	$ 4,611	1,815	(3,116)	$ 3,310
Restructuring reserve	$ 2,768	2,420	(1,115)	$ 4,073
Valuation allowance for deferred taxes	$ 49,368	17,506	-	$ 66,874
For the fiscal year ended December 28, 2004:				
Allowance for doubtful accounts	$ 3,310	177	(1,012)	$ 2,475
Restructuring reserve	$ 4,073	(869)	(3,183)	$ 21
Valuation allowance for deferred taxes	$ 66,874	7,140	-	$ 74,014
For the fiscal year ended January 3, 2006:				
Allowance for doubtful accounts	$ 2,475	(158)	(1,837)	$ 480
Restructuring reserve	$ 21	5	(26)	$ -
Valuation allowance for deferred taxes	$ 74,014	4,591	-	$ 78,605

Notes:

(a) Amounts charged to costs and expenses.

(b) Bad debt write-offs and charges to reserves.

See accompanying report of independent registered public accounting firm.

Manhattan Bagel Company, Inc.
Confidential Operations Manual
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