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

Form 10-Q

(Mark one)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 25, 2007

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-19253

Panera Bread Company

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

04-2723701

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

6710 Clayton Road, Richmond Heights, MO

(Address of principal executive offices)

63117

(Zip code)

(314) 633-7100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of October 30, 2007, 30,872,081 shares and 1,398,588 shares of the registrant's Class A Common Stock and Class B Common Stock, respectively, par value \$.0001 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**PANERA BREAD COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)**

	September 25, 2007	December 26, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,969	\$ 52,097
Investments in government securities	—	20,025
Trade accounts receivable, net	17,568	19,041
Other accounts receivable	7,720	11,878
Inventories	10,165	8,714
Prepaid expenses	15,415	12,036
Deferred income taxes	6,975	3,827
Total current assets	74,812	127,618
Property and equipment, net	408,899	345,977
Other assets:		
Goodwill	87,179	57,192
Other intangible assets, net	22,161	6,604
Deposits and other	6,911	5,218
Total other assets	116,251	69,014
Total assets	\$ 599,962	\$ 542,609
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,423	\$ 5,800
Accrued expenses	91,957	102,718
Deferred revenue	2,117	1,092
Total current liabilities	100,497	109,610
Deferred rent	31,275	27,684
Other long-term liabilities	12,504	7,649
Total liabilities	144,276	144,943
Commitments and contingencies		
Minority interest	2,323	—
Stockholders' equity:		
Common stock, \$.0001 par value:		
Class A, 75,000,000 shares authorized; 30,943,957 issued and 30,828,588 outstanding in 2007; and 30,453,157 issued and 30,344,157 outstanding in 2006	3	3
Class B, 10,000,000 shares authorized; 1,398,588 issued and outstanding in 2007 and 1,400,031 in 2006	—	—
Treasury stock, carried at cost	(1,179)	(900)
Additional paid-in capital	193,411	176,241
Retained earnings	261,128	222,322
Total stockholders' equity	453,363	397,666
Total liabilities and stockholders' equity	\$ 599,962	\$ 542,609

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

PANERA BREAD COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share information)

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006	September 25, 2007	September 26, 2006
Revenues:				
Bakery-cafe sales	\$ 232,244	\$ 165,098	\$ 638,988	\$ 477,329
Franchise royalties and fees	16,286	15,134	49,555	44,948
Fresh dough sales to franchisees	24,683	24,722	77,304	73,782
Total revenue	<u>273,213</u>	<u>204,954</u>	<u>765,847</u>	<u>596,059</u>
Costs and expenses:				
Bakery-cafe expenses:				
Cost of food and paper products	75,037	49,987	200,157	141,944
Labor	75,545	52,122	205,405	147,577
Occupancy	18,580	12,278	50,473	34,797
Other operating expenses	32,487	24,619	87,807	67,138
Total bakery-cafe expenses	<u>201,649</u>	<u>139,006</u>	<u>543,842</u>	<u>391,456</u>
Fresh dough cost of sales to franchisees	20,137	20,333	63,574	62,849
Depreciation and amortization	14,990	11,325	42,387	32,050
General and administrative expenses	18,412	16,593	52,928	45,441
Pre-opening expenses	1,908	1,457	4,687	3,941
Total costs and expenses	<u>257,096</u>	<u>188,714</u>	<u>707,418</u>	<u>535,737</u>
Operating profit	16,117	16,240	58,429	60,322
Interest expense	28	4	199	10
Other (income) expense, net	(145)	(896)	(731)	(2,591)
Income before minority interest and income taxes	16,234	17,132	58,961	62,903
Minority interest (income) expense	(312)	—	(120)	—
Income before income taxes	16,546	17,132	59,081	62,903
Income taxes	4,603	6,253	19,459	22,960
Net income	<u>\$ 11,943</u>	<u>\$ 10,879</u>	<u>\$ 39,622</u>	<u>\$ 39,943</u>
Per share data:				
Net income per share				
Basic	<u>\$ 0.38</u>	<u>\$ 0.35</u>	<u>\$ 1.25</u>	<u>\$ 1.28</u>
Diluted	<u>\$ 0.37</u>	<u>\$ 0.34</u>	<u>\$ 1.23</u>	<u>\$ 1.25</u>
Weighted average shares of common and common equivalent shares outstanding:				
Basic	<u>31,812</u>	<u>31,338</u>	<u>31,684</u>	<u>31,275</u>
Diluted	<u>32,163</u>	<u>31,961</u>	<u>32,210</u>	<u>32,012</u>

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

PANERA BREAD COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Cash flows from operations:		
Net income	\$ 39,622	\$ 39,943
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,387	32,050
Stock-based compensation expense	6,184	5,997
Tax benefit from exercise of stock options	(3,427)	(2,665)
Minority interest	(120)	—
Deferred income taxes	(6,184)	(3,166)
Other	676	(245)
Changes in operating assets and liabilities, excluding the effect of acquisitions:		
Trade and other accounts receivable	5,955	747
Inventories	(569)	(336)
Prepaid expenses	(3,232)	(1,587)
Accounts payable	(718)	2,883
Accrued expenses	1,182	(12,934)
Deferred rent	3,591	4,280
Other long-term liabilities	2,489	2,572
Net cash provided by operating activities	<u>87,836</u>	<u>67,539</u>
Cash flows from investing activities:		
Additions to property and equipment	(86,567)	(74,106)
Proceeds from sale of bakery-cafe	1,844	—
Acquisitions, net of cash acquired	(69,190)	—
Purchases of investments	—	(30,619)
Investment maturities proceeds	20,000	51,200
Increase in deposits and other	(37)	(770)
Net cash used in investing activities	<u>(133,950)</u>	<u>(54,295)</u>
Cash flows from financing activities:		
Exercise of employee stock options	6,236	4,468
Tax benefit from exercise of stock options	3,427	2,665
Proceeds from issuance of common stock under employee benefit plans	1,323	1,150
Net cash provided by financing activities	<u>10,986</u>	<u>8,283</u>
Net increase (decrease) in cash and cash equivalents	(35,128)	21,527
Cash and cash equivalents at beginning of period	52,097	24,451
Cash and cash equivalents at end of period	<u>\$ 16,969</u>	<u>\$ 45,978</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A-BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Panera Bread Company and its subsidiaries (the “Company”) have been prepared in accordance with instructions to Form 10-Q. These consolidated financial statements do not include all information and footnotes normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Form 10-K for the fiscal year ended December 26, 2006.

The consolidated financial statements consist of the accounts of Panera Bread Company and its wholly owned direct and indirect consolidated subsidiaries. In addition, from and after February 1, 2007, the consolidated financial statements of Panera Bread Company include its majority-owned consolidated subsidiary, Paradise Bakery & Café, Inc. All intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments and accruals) that management considers necessary for a fair statement of its financial position and results of operations for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the entire year.

NOTE B-INVESTMENTS IN GOVERNMENT SECURITIES

There were no investments in government securities as of September 25, 2007. Investments of \$20.0 million as of December 26, 2006 consisted of United States treasury notes and government agency securities. During the thirty-nine weeks ended September 25, 2007, there were no investments purchased by the Company while \$20.0 million of investments matured or were called by the issuer. During the thirty-nine weeks ended September 26, 2006, \$30.6 million of investments were purchased by the Company and \$51.2 million of investments matured or were called by the issuer. During the thirty-nine weeks ended September 25, 2007 and September 26, 2006, the Company recognized interest income on these investments of \$0.2 million and \$1.5 million, respectively, which includes premium amortization of \$0.03 million in the 2007 period and discount amortization of \$0.3 million in the 2006 period, and is classified in Other (Income) Expense, Net in the Consolidated Statements of Operations. The Company’s investments were classified as short-term in the Consolidated Balance Sheets as of December 26, 2006 based upon their stated maturity dates.

Management designates the appropriate classification of its investments at the time of purchase based upon its intended holding period. At December 26, 2006, the investments were classified as held-to-maturity as the Company had the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums to maturity using the effective interest method, which approximated fair value as of December 26, 2006.

NOTE C-BUSINESS COMBINATIONS

On June 21, 2007, the Company purchased substantially all of the assets of ten bakery-cafes and the area development rights for certain markets in Illinois from its area developer, SLB of Central Illinois, L.L.C., for a purchase price of approximately \$16.6 million, net of the \$0.4 million contractual settlement charge determined in accordance with Emerging Issues Task Force Issue 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination* (“EITF 04-1”), plus approximately \$0.1 million in acquisition costs. Approximately \$16.2 million of the acquisition price was paid with cash on hand at the time of closing with the remaining approximately \$0.8 million to be paid with interest within twelve months of the closing date. The Consolidated Statements of Operations include the results of operations from the operating bakery-cafes from the date of the acquisition. The pro forma impact of the acquisition on prior periods is not presented, as the impact is not material to reported results. The Company allocated the purchase price to the tangible and intangible assets acquired in the acquisition at their estimated fair values with the remainder allocated to tax deductible goodwill as follows: \$0.2 million to inventories, \$5.1 million to property and equipment, \$7.1 million to intangible assets, which represents the fair value of re-acquired territory rights and favorable lease agreements, \$0.6 million to liabilities, and \$4.9 million to goodwill. As a result of the acquisition, the Company incurred a contractual settlement charge of \$0.4 million pursuant to EITF 04-1, reflecting the termination of franchise agreements for certain bakery-cafes that operated at a royalty rate lower than the Company’s current market royalty rates. The charge is reported as Other (Income) Expense, Net in the Consolidated Statements of Operations.

On June 21, 2007, the Company also purchased substantially all of the assets of twenty-two bakery-cafes and the area development rights for certain markets in Minnesota from its area developer, SLB of Minnesota, L.L.C., for a purchase price of approximately \$18.3 million, net of the \$0.7 million contractual settlement charge determined in accordance with EITF 04-1, plus approximately \$0.1 million in acquisition costs. Approximately \$18.1 million of the acquisition price was paid with cash on hand at the time of closing with the remaining approximately \$0.9 million to be paid with interest within twelve months of the closing date. The Consolidated Statements of Operations include the results of operations from the operating bakery-cafes from the date of the acquisition. The pro forma impact of the acquisition on prior periods is not presented, as the impact is not material to reported results. The Company allocated the purchase price to the tangible and intangible assets acquired in the acquisition at their estimated fair values with the remainder allocated to tax deductible goodwill as follows: \$0.3 million to inventories, \$8.7 million to property and equipment, \$2.2 million to intangible assets, which represents the fair value of re-acquired territory rights and favorable lease agreements, \$0.3 million to liabilities, and \$7.5 million to goodwill. As a result of the acquisition, the Company incurred a contractual settlement charge of \$0.7 million pursuant to EITF 04-1, reflecting the termination of franchise agreements for certain bakery-cafes that operated at a royalty rate lower than the Company's current market royalty rates. The charge is reported as Other (Income) Expense, Net in the Consolidated Statements of Operations.

On June 6, 2007, the Company sold substantially all of the assets of one bakery-cafe and the area development rights for certain markets in Southern California to a new area developer, Pride Bakeries, LLC, for a sales price of approximately \$1.8 million, resulting in a gain of approximately \$0.5 million, which is classified in Other (Income) Expense, Net in the Consolidated Statements of Operations. Pride Bakeries, LLC, has also agreed to develop 12 additional bakery-cafes in certain previously undeveloped Southern California markets.

On February 28, 2007, the Company purchased substantially all of the assets of six bakery-cafes (two of which were under construction) and the area development rights for certain markets in California from its area developer, R&S Bread Group, Inc., for a purchase price of approximately \$5.1 million plus approximately \$0.02 million in acquisition costs. Approximately \$4.6 million of the acquisition price was paid with cash on hand at the time of closing, approximately \$0.3 million plus accrued interest was paid in cash during the third quarter of 2007 with the remaining approximately \$0.2 million to be paid with interest within twelve months of the closing date. The Consolidated Statements of Operations include the results of operations from the operating bakery-cafes from the date of the acquisition. The pro forma impact of the acquisition on prior periods is not presented, as the impact is not material to reported results. The Company allocated the purchase price to the tangible and intangible assets acquired in the acquisition at their estimated fair values with the remainder allocated to tax deductible goodwill as follows: \$0.1 million to inventories, \$2.7 million to property and equipment, \$1.2 million to intangible assets, which represents the fair value of re-acquired territory rights and favorable and unfavorable lease agreements, and \$1.1 million to goodwill.

On February 1, 2007, the Company purchased 51 percent of the outstanding stock of Paradise Bakery & Café, Inc. ("Paradise"), then owner and operator of 23 locations including 22 bakery-cafes, 17 of which are in the Phoenix market, and one commissary, and franchisor of 23 locations including 22 bakery-cafes and one commissary, for a purchase price of approximately \$21.1 million plus approximately \$0.5 million in acquisition costs. Approximately \$20.1 million of the acquisition price was paid with cash on hand at the time of closing, approximately \$0.6 million plus accrued interest was paid in cash during the second quarter of 2007 with the remaining approximately \$0.4 million to be paid with interest within the next twelve months. In addition, the Company has the right to purchase the remaining 49 percent of the outstanding stock of Paradise after January 1, 2009 at a contractually determined value, which approximates fair value. Also, if the Company has not exercised its right to purchase the remaining 49 percent of the outstanding stock of Paradise, the remaining Paradise owners have the right to purchase the Company's 51 percent ownership interest in Paradise after June 30, 2009 for \$21.1 million. In conjunction with the transaction, Paradise entered into a credit facility with the Company pursuant to which Paradise borrowed \$6.1 million from the Company with approximately \$4.8 million of the borrowing paid directly to Paradise's third-party creditors and the remaining \$1.3 million retained by Paradise for working capital purposes. The Consolidated Statements of Operations include the results of operations of Paradise from the date of the acquisition. The pro forma impact of the acquisition on prior periods is not presented as the impact is not material to reported results. The Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed in the acquisition at their estimated fair values with any remainder allocated to tax deductible goodwill as follows: \$5.1 million to current assets, \$5.8 million to intangible assets, which represents the fair value of trademarks and favorable lease agreements, \$16.6 million to goodwill, \$7.4 million to other long-term assets, \$8.9 million to current liabilities, \$2.0 million to long-term liabilities and \$2.4 million to minority interest.

In total, the Company has approximately \$4.3 million of accrued purchase price as of September 25, 2007 affiliated with the acquisitions completed in fiscal 2006 and 2007, which is anticipated to be paid within the next twelve months. During the thirty-nine weeks ended September 25, 2007, the Company paid approximately \$7.8 million, including accrued interest, of previously accrued acquisition purchase price in accordance with the asset purchase agreements. There were no accrued purchase price payments made in the thirty-nine weeks ended September 26, 2006.

NOTE D-INVENTORIES

Inventories consist of the following (in thousands):

	<u>September 25, 2007</u>	<u>December 26, 2006</u>
Food:		
Fresh dough facilities:		
Raw materials	\$ 2,347	\$ 2,488
Finished goods	658	332
Bakery-cafes:		
Raw materials	5,651	4,721
Paper goods	1,364	999
Retail merchandise	145	174
	<u>\$ 10,165</u>	<u>\$ 8,714</u>

NOTE E-ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	<u>September 25, 2007</u>	<u>December 26, 2006</u>
Capital expenditures	\$ 18,780	\$ 23,396
Compensation and related employment taxes	17,528	18,757
Unredeemed gift cards	15,897	20,768
Insurance	9,814	7,551
Rent	4,884	2,987
Deferred acquisition purchase price (Note C)	4,303	8,490
Utilities	3,739	2,188
Taxes, other than income tax	3,629	2,638
Advertising	3,339	4,027
Other	10,044	11,916
	<u>\$ 91,957</u>	<u>\$ 102,718</u>

NOTE F-COMMITMENTS AND CONTINGENCIES

The Company is the prime tenant for operating leases of 13 franchisee locations and a guarantor for operating leases of 16 locations of its former Au Bon Pain division, or its franchisees. The leases have terms expiring on various dates from November 2007 to December 2018 and have a potential amount of future rental payments of approximately \$17.7 million as of September 25, 2007. The obligation from these leases will generally continue to decrease over time as these operating leases expire. The Company has not recorded a liability for these guarantees pursuant to the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements For Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34* ("FIN 45"), as of September 25, 2007, as the Company does not believe it is probable it would be required to perform under any guarantees at that date. Also, the Company has not had to make any payments related to the leases. Au Bon Pain or the applicable franchisee continues to have primary liability for these operating leases.

The Company's 51 percent owned Paradise subsidiary has guaranteed 10 operating leases on behalf of its franchisees. The leases have terms expiring on various dates from October 2009 to January 2014 and have a potential amount of future rental payments of approximately \$3.4 million as of September 25, 2007. The obligation from these leases will generally continue to decrease over time as these operating leases expire. There is no liability reflected for these guarantees pursuant to the provisions of FIN 45 as of September 25, 2007, as the Company does not believe it is probable Paradise would be required to perform under any guarantees at that date. The Company has not had to make any payments related to the leases. The applicable franchisee continues to have primary liability for these operating leases.

NOTE G-INCOME TAXES

Effective December 27, 2006, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a result of the implementation of FIN 48, the Company increased its existing reserves for uncertain tax positions by \$1.2 million, principally related to state income tax matters. Of this amount, \$0.4 million was recorded as a deferred tax asset relating to the estimated federal tax benefit and \$0.8 million was recorded as a cumulative-effect adjustment to reduce the fiscal 2007 opening balance of Retained Earnings in the Consolidated Balance Sheets.

As of December 27, 2006, the Company had \$2.7 million of total unrecognized tax benefits. If recognized in full, approximately \$2.3 million, net of federal tax benefits, would have been recorded as a reduction of income tax expense. These unrecognized tax benefits related principally to state tax filing positions and previously deducted expenses. Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense in the Consolidated Statements of Operations and were insignificant during the thirteen and thirty-nine weeks ended September 25, 2007. Accrued interest and penalties were \$0.2 million and \$0.3 million as of September 25, 2007 and December 27, 2006, respectively. As a result of the expiration of statutes of limitations on the recovery of certain previously deducted expenses during the third quarter of 2007, the Company recorded a reduction in its income tax provision of \$1.5 million. As of September 25, 2007, the Company had \$1.5 million of total unrecognized tax benefits and the amount of unrecognized tax benefits that, if recognized, would be recorded as a reduction of income tax expense decreased to \$1.1 million, net of federal tax benefits. The Company does not expect any significant changes to the unrecognized tax benefits within twelve months of September 25, 2007.

In certain cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. Tax returns in the Company's major tax filing jurisdictions for years after 2002 are subject to future examination by tax authorities.

NOTE H-BUSINESS SEGMENT INFORMATION

The Company operates three business segments. The Company Bakery-Cafe Operations segment is comprised of the operating activities of the bakery-cafes owned directly and indirectly by the Company. The Company-owned bakery-cafes conduct business under the Panera Bread®, Saint Louis Bread Co.® or Paradise Bakery & Café® names. These bakery-cafes offer some or all of the following: fresh baked goods, made-to-order sandwiches on freshly baked breads, soups, salads, custom roasted coffees, and other complementary products through on-premise sales, as well as catering.

The Franchise Operations segment is comprised of the operating activities of the franchise business unit which licenses qualified operators to conduct business under the Panera Bread® or Paradise Bakery & Café® names and also of the costs to monitor the operations of these bakery-cafes. Under the terms of most of the agreements, the licensed operators pay royalties and fees to the Company in return for the use of the Panera Bread® or Paradise Bakery & Café® names.

The Fresh Dough Operations segment supplies fresh dough items and indirectly supplies proprietary sweet good items through a contract manufacturing arrangement to both Company-owned and franchise-operated bakery-cafes. The fresh dough is sold to a number of both Company-owned and franchise-operated bakery-cafes at a delivered cost generally not to exceed 27 percent of the retail value of the end product. The sales and related costs to the franchise-operated bakery-cafes are separately stated line items in the Consolidated Statements of Operations. The operating profit related to the sales to Company-owned bakery-cafes is classified as a reduction of the costs in the Cost of Food and Paper Products line item on the Consolidated Statements of Operations.

Segment information related to the Company's three business segments follows (in thousands):

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006	September 25, 2007	September 26, 2006
Revenues:				
Company bakery-cafe operations	\$ 232,244	\$ 165,098	\$ 638,988	\$ 477,329
Franchise operations	16,286	15,134	49,555	44,948
Fresh dough operations	42,755	38,677	128,893	115,091
Intercompany sales eliminations	(18,072)	(13,955)	(51,589)	(41,309)
Total revenues	<u>\$ 273,213</u>	<u>\$ 204,954</u>	<u>\$ 765,847</u>	<u>\$ 596,059</u>
Segment profit:				
Company bakery-cafe operations	\$ 30,595	\$ 26,092	\$ 95,146	\$ 85,873
Franchise operations	14,409	13,212	43,377	40,316
Fresh dough operations	4,546	4,389	13,730	10,933
Total segment profit	<u>\$ 49,550</u>	<u>\$ 43,693</u>	<u>\$ 152,253</u>	<u>\$ 137,122</u>
Depreciation and amortization	14,990	11,325	42,387	32,050
Unallocated general and administrative expenses	16,535	14,671	46,750	40,809
Pre-opening expenses	1,908	1,457	4,687	3,941
Interest expense	28	4	199	10
Other (income) expense, net	(145)	(896)	(731)	(2,591)
Minority interest (income) expense	(312)	—	(120)	—
Income before income taxes	<u>\$ 16,546</u>	<u>\$ 17,132</u>	<u>\$ 59,081</u>	<u>\$ 62,903</u>
Depreciation and amortization:				
Company bakery-cafe operations	\$ 11,844	\$ 8,426	\$ 32,778	\$ 23,723
Fresh dough operations	2,028	1,786	6,214	5,184
Corporate administration	1,118	1,113	3,395	3,143
Total depreciation and amortization	<u>\$ 14,990</u>	<u>\$ 11,325</u>	<u>\$ 42,387</u>	<u>\$ 32,050</u>
Capital expenditures:				
Company bakery-cafe operations	\$ 30,788	\$ 18,641	\$ 76,377	\$ 57,888
Fresh dough operations	844	4,512	6,872	9,350
Corporate administration	1,238	2,453	3,318	6,868
Total capital expenditures	<u>\$ 32,870</u>	<u>\$ 25,606</u>	<u>\$ 86,567</u>	<u>\$ 74,106</u>
Segment assets:				
Company bakery-cafe operations			\$ 483,925	\$ 374,795
Franchise operations			4,466	3,740
Fresh dough operations			54,317	59,919
Total segment assets			<u>\$ 542,708</u>	<u>\$ 438,454</u>
Unallocated trade and other accounts receivable			2,328	1,902
Unallocated property and equipment			16,379	16,491
Unallocated deposits and other			4,662	3,160
Other unallocated assets			33,885	82,602
Total assets			<u>\$ 599,962</u>	<u>\$ 542,609</u>

“Unallocated trade and other accounts receivable” relates primarily to rebates and interest receivable; “unallocated property and equipment” relates primarily to corporate fixed assets; “unallocated deposits and other” relates primarily to Company-owned life insurance program; and “other unallocated assets” relates primarily to cash and cash equivalents and investments.

NOTE I-EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except for per share data):

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006	September 25, 2007	September 26, 2006
Amounts used for basic and diluted per share calculations:				
Net income	\$ 11,943	\$ 10,879	\$ 39,622	\$ 39,943
Weighted average number of shares outstanding — basic	31,812	31,338	31,684	31,275
Effect of dilutive securities:				
Employee stock options	302	590	463	703
Employee restricted stock	49	26	59	25
Employee performance awards	—	7	4	9
Weighted average number of shares outstanding — diluted	32,163	31,961	32,210	32,012
Basic earnings per common share:				
Net income	\$ 0.38	\$ 0.35	\$ 1.25	\$ 1.28
Diluted earnings per common share:				
Net income	\$ 0.37	\$ 0.34	\$ 1.23	\$ 1.25

For the thirteen and thirty-nine weeks ended September 25, 2007, options and restricted stock for 0.6 million shares and 0.5 million shares were excluded in calculating diluted earnings per share as the exercise price exceeded fair market value and inclusion would have been antidilutive. For the thirteen and thirty-nine weeks ended September 26, 2006, options and restricted stock for 0.3 million shares and 0.2 million shares, respectively, were excluded in calculating diluted earnings per share as the exercise price exceeded fair market value and inclusion would have been antidilutive.

NOTE J-RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (“SFAS 159”). Under SFAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. If elected, SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing whether fair value accounting is appropriate for any of the Company’s eligible items and have not yet determined the impact, if any, on its consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measures* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently reviewing the provisions of SFAS 157 to determine the impact, if any, on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Matters discussed in this report and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, plans and objectives, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words "believe", "positioned", "estimate", "project", "target", "continue", "intend", "expect", "future", "anticipates", and similar expressions that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report and in our other public filings with the Securities and Exchange Commission. It is routine for internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this report or other periodic reports are made only as of the date made and may change. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

General

Panera Bread Company and its subsidiaries may be referred to as the "Company," "Panera Bread," or in the first person notation of "we," "us," and "ours" in the following discussion.

We include in this report information on Company, franchisee, and/or system-wide comparable bakery-cafe sales increases and average weekly sales. System-wide sales are a non-GAAP financial measure that includes sales at all Company-owned and franchise-operated bakery-cafes, as reported by franchisees. Management uses system-wide sales information internally in connection with store development decisions, planning, and budgeting analyses. Management believes it is useful in assessing consumer acceptance of our brand and facilitating an understanding of financial performance as our franchisees pay royalties and contribute to advertising pools based on a percentage of their sales.

Our revenues are derived from Company-owned bakery-cafe sales, fresh dough sales to franchisees, and franchise royalties and fees. Fresh dough sales to franchisees are primarily the sales of dough products and sales of tuna and cream cheese to certain of our franchisees. Franchise royalties and fees include royalty income and franchise fees. The cost of food and paper products, labor, occupancy, and other operating expenses relate primarily to Company-owned bakery-cafe sales. The cost of fresh dough sales relates primarily to the sale of fresh dough products and tuna and cream cheese to franchisees. General and administrative, depreciation and amortization, and pre-opening expenses relate to all areas of revenue generation.

For the thirteen weeks ended September 25, 2007, we earned \$0.37 per diluted share with the following performance on key metrics: system-wide comparable bakery-cafe sales growth of 2.6 percent (3.4 percent for Company-owned bakery-cafes and 2.1 percent for franchise-operated bakery-cafes); system-wide average weekly sales declined 0.1 percent to \$38,051 (\$37,136 for Company-owned bakery-cafes and \$38,711 for franchise-operated bakery-cafes); 35 new bakery-cafes opened system-wide in the third quarter of 2007, including 19 Company-owned bakery-cafes and 16 franchise-operated bakery-cafes; and two bakery-cafes closed system-wide in the third quarter of 2007, including one Company-owned bakery-cafe and one franchise-operated bakery-cafe.

For the thirty-nine weeks ended September 25, 2007, we earned \$1.23 per diluted share with the following performance on key metrics: system-wide comparable bakery-cafe sales growth of 1.6 percent (1.6 percent for both Company-owned and franchise-operated bakery-cafes); system-wide average weekly sales declined 1.3 percent to \$38,224 (\$37,016 for Company-owned bakery-cafes and \$39,025 for franchise-operated bakery-cafes); and 105 new bakery-cafes opened system-wide year-to-date through the third quarter of 2007, including 50 Company-owned bakery-cafes and 55 franchise-operated bakery-cafes. Additionally, 36 bakery-cafes were acquired by the Company from franchisees, one bakery-cafe was sold by the Company to a franchisee, and eight bakery-cafes were closed system-wide year-to-date through the third quarter of 2007, including five Company-owned bakery-cafes and three franchise-operated bakery-cafes. Further, on February 1, 2007, we purchased 51 percent of the outstanding stock of Paradise Bakery & Café, Inc., referred to as Paradise, then owner and operator of 23 company-owned locations, including 22 bakery-cafes and one commissary, and 23 franchise-operated locations, including 22 bakery-cafes and one commissary.

Results of Operations

The following table sets forth the percentage relationship to total revenues, except where otherwise indicated, of certain items included in the accompanying Consolidated Statements of Operations for the periods indicated. Percentages may not add due to rounding:

	For the 13 Weeks Ended	
	September 25, 2007	September 26, 2006
Revenues:		
Bakery-cafe sales	85.0%	80.5%
Franchise royalties and fees	6.0	7.4
Fresh dough sales to franchisees	9.0	12.1
Total revenue	100.0%	100.0%
Costs and expenses:		
Bakery-cafe expenses (1):		
Cost of food and paper products	32.3%	30.3%
Labor	32.5	31.6
Occupancy	8.0	7.4
Other operating expenses	14.0	14.9
Total bakery-cafe expenses	86.8	84.2
Fresh dough cost of sales to franchisees (2)	81.6	82.2
Depreciation and amortization	5.5	5.5
General and administrative expenses	6.7	8.1
Pre-opening expenses	0.7	0.7
Total costs and expenses	94.1	92.1
Operating profit	5.9	7.9
Interest expense	—	—
Other (income) expense, net	(0.1)	(0.4)
Income before minority interest and income taxes	6.0	8.4
Minority interest (income) expense	(0.1)	—
Income before income taxes	6.1	8.4
Income taxes	1.7	3.1
Net income	4.4%	5.3%

(1) As a percentage of bakery-cafe sales.

(2) As a percentage of fresh dough sales to franchisees.

The following table sets forth the percentage relationship to total revenues, except where otherwise indicated, of certain items included in the accompanying Consolidated Statements of Operations for the periods indicated. Percentages may not add due to rounding:

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Revenues:		
Bakery-cafe sales	83.4%	80.1%
Franchise royalties and fees	6.5	7.5
Fresh dough sales to franchisees	10.1	12.4
Total revenue	100.0%	100.0%
Costs and expenses:		
Bakery-cafe expenses (1):		
Cost of food and paper products	31.3%	29.7%
Labor	32.1	30.9
Occupancy	7.9	7.3
Other operating expenses	13.7	14.1
Total bakery-cafe expenses	85.1	82.0
Fresh dough cost of sales to franchisees (2)	82.2	85.2
Depreciation and amortization	5.5	5.4
General and administrative expenses	6.9	7.6
Pre-opening expenses	0.6	0.7
Total costs and expenses	92.4	89.9
Operating profit	7.6	10.1
Interest expense	—	—
Other (income) expense, net	(0.1)	(0.4)
Income before minority interest and income taxes	7.7	10.6
Minority interest (income) expense	—	—
Income before income taxes	7.7	10.6
Income taxes	2.5	3.9
Net income	5.2%	6.7%

(1) As a percentage of bakery-cafe sales.

(2) As a percentage of fresh dough sales to franchisees.

The following table sets forth certain information and other data relating to Company-owned and franchise-operated bakery-cafes for the periods indicated:

	For the 13 Weeks Ended	
	September 25, 2007	September 26, 2006
Number of bakery-cafes:		
Company-owned:		
Beginning of period	475	337
Bakery-cafes opened	19	17
Bakery-cafes closed	(1)	(1)
End of period	<u>493</u>	<u>353</u>
Franchise-operated:		
Beginning of period	660	602
Bakery-cafe opened	16	21
Bakery-cafe closed	(1)	—
End of period	<u>675</u>	<u>623</u>
System-wide:		
Beginning of period	1,135	939
Bakery-cafes opened	35	38
Bakery-cafes closed	(2)	(1)
End of period	<u>1,168</u>	<u>976</u>

The following table sets forth certain information and other data relating to Company-owned and franchise-operated bakery-cafes for the periods indicated:

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Number of bakery-cafes:		
Company-owned:		
Beginning of period	391	311
Bakery-cafes opened	50	44
Bakery-cafes closed	(5)	(2)
Bakery-cafes acquired from franchisees	36	—
Bakery-cafe sold to a franchisee	(1)	—
Bakery-cafes acquired	22	—
End of period	<u>493</u>	<u>353</u>
Franchise-operated:		
Beginning of period	636	566
Bakery-cafes opened	55	59
Bakery-cafes closed	(3)	(2)
Bakery-cafes sold to Company	(36)	—
Bakery-cafe purchased from Company	1	—
Bakery-cafes acquired	22	—
End of period	<u>675</u>	<u>623</u>
System-wide:		
Beginning of period	1,027	877
Bakery-cafes opened	105	103
Bakery-cafes closed	(8)	(4)
Bakery-cafes acquired	44	—
End of period	<u>1,168</u>	<u>976</u>

Comparable bakery-cafe sales results for the periods indicated were as follows:

	For the 13 Weeks Ended	
	September 25, 2007	September 26, 2006
Company-owned	3.4%	2.5%
Franchise-operated	2.1%	3.0%
System-wide	2.6%	2.8%

Comparable bakery-cafe sales results for the periods indicated were as follows:

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Company-owned	1.6%	4.8%
Franchise-operated	1.6%	4.9%
System-wide	1.6%	4.9%

Company-owned comparable bakery-cafe sales percentages are based on sales from bakery-cafes that have been in operation and Company-owned for at least 18 months. Franchise-operated comparable bakery-cafe sales percentages are based on sales from franchised bakery-cafes that have been in operation and franchise-operated for at least 18 months. Both Company-owned and franchise-operated comparable bakery-cafe sales exclude closed locations.

Revenues

Total revenues for the thirteen weeks ended September 25, 2007 increased 33.3 percent to \$273.2 million compared to \$205.0 million for the thirteen weeks ended September 26, 2006. The growth in total revenue for the thirteen weeks ended September 25, 2007 compared to the same period in 2006 is primarily due to the opening of 157 new bakery-cafes system-wide since September 26, 2006, the acquisition of 44 system-wide bakery-cafes on February 1, 2007 as a result of the purchase of 51 percent of the outstanding stock of Paradise, and the increase in system-wide comparable bakery-cafe sales for the thirteen weeks ended September 25, 2007 of 2.6 percent. The system-wide average weekly sales per bakery-cafe and the related number of operating weeks for the periods indicated are as follows:

	For the 13 Weeks Ended		Percentage Change
	September 25, 2007	September 26, 2006	
System-wide average weekly sales	\$38,051	\$38,098	-0.1%
System-wide number of operating weeks	14,931	12,438	20.0%

Total revenues for the thirty-nine weeks ended September 25, 2007 increased 28.5 percent to \$765.8 million compared to \$596.1 million for the thirty-nine weeks ended September 26, 2006. The growth in total revenue for the thirty-nine weeks ended September 25, 2007 compared to the same period in 2006 is primarily due to the opening of 157 new bakery-cafes system-wide since September 26, 2006, the acquisition of 44 system-wide bakery-cafes on February 1, 2007 as a result of the purchase of 51 percent of the outstanding stock of Paradise, and the increase in system-wide comparable bakery-cafe sales for the thirty-nine weeks ended September 25, 2007 of 1.6 percent. The system-wide average weekly sales per bakery-cafe and the related number of operating weeks for the periods indicated are as follows:

	For the 39 Weeks Ended		Percentage Change
	September 25, 2007	September 26, 2006	
System-wide average weekly sales	\$38,224	\$38,729	-1.3%
System-wide number of operating weeks	43,302	35,859	20.8%

Average weekly sales is calculated by dividing total net sales by operating weeks. Accordingly, year-over-year results reflect sales for all locations, whereas comparable store sales exclude closed locations and are based on sales for bakery-cafes that have been in operation and owned for at least 18 months. New stores typically experience an opening “honey-moon” period whereby they generate higher average weekly sales during the first 12 to 16 weeks they are open as customers “settle-in” to normal usage patterns from initial trial of the location. On average, the “settle-in” experienced is 5 percent to 10 percent from the average weekly sales during the “honey-moon” period. As a result, year-over-year results of average weekly sales is generally lower than the results in comparable bakery-cafe sales. This results from the relationship of the number of bakery-cafes in the “honey-moon” phase, the number of bakery-cafes in the “settle-in” phase, and the number of stores in the comparable store base.

Bakery-cafe sales for the thirteen weeks ended September 25, 2007 increased 40.6 percent to \$232.2 million compared to \$165.1 million for the thirteen weeks ended September 26, 2006. The increase in bakery-cafe sales for the thirteen weeks ended September 25, 2007 compared to the same period in 2006 is primarily due to the opening of 76 new Company-owned bakery-cafes and the acquisition of 49 bakery-cafes from franchisees since September 26, 2006. Bakery-cafe sales were also positively impacted by revenues from the 22 Paradise company-owned bakery-cafes acquired on February 1, 2007 and consolidated into our results prospectively from the acquisition date. In total, Company-owned bakery-cafe sales as a percentage of total revenue increased by 4.5 percentage points to 85.0 percent for the thirteen weeks ended September 25, 2007 as compared to 80.5 percent for the same period in 2006. Bakery-cafes included in comparable sales increases and not included in comparable sales increases consisted of 7.5 percent and 92.5 percent, respectively, of the \$67.1 million increase in sales from the comparable period in 2006. In addition, average weekly sales for Company-owned bakery-cafes for the thirteen weeks ended September 25, 2007 increased modestly as compared to the same period in 2006 but lagged the increase in comparable bakery-cafe sales for the same comparative periods primarily due to the greater concentration of Company-owned bakery-cafe openings in immature markets, which experience a slower initial ramp-up of average weekly sales. The average weekly sales per Company-owned bakery-cafe and the number of operating weeks for the periods indicated are as follows:

	<u>For the 13 Weeks Ended</u>		<u>Percentage Change</u>
	<u>September 25, 2007</u>	<u>September 26, 2006</u>	
Company-owned average weekly sales	\$37,136	\$36,905	0.6%
Company-owned number of operating weeks	6,254	4,474	39.8%

Bakery-cafe sales for the thirty-nine weeks ended September 25, 2007 increased 33.9 percent to \$639.0 million compared to \$477.3 million for the thirty-nine weeks ended September 26, 2006. The increase in bakery-cafe sales for the thirty-nine weeks ended September 25, 2007 compared to the same period in 2006 is primarily due to the opening of 76 new Company-owned bakery-cafes and the acquisition of 49 bakery-cafes from franchisees since September 26, 2006. Bakery-cafe sales were also positively impacted by revenues from the 22 Paradise company-owned bakery-cafes acquired on February 1, 2007 and consolidated into our results prospectively from the acquisition date. In total, Company-owned bakery-cafe sales as a percentage of total revenue increased by 3.3 percentage points to 83.4 percent for the thirty-nine weeks ended September 25, 2007 as compared to 80.1 percent for the same period in 2006. Bakery-cafes included in comparable sales increases and not included in comparable sales increases consisted of 4.1 percent and 95.9 percent, respectively, of the \$161.7 million increase in sales from the comparable period in 2006. In addition, average weekly sales for Company-owned bakery-cafes for the thirty-nine weeks ended September 25, 2007 decreased as compared to the same period in 2006 primarily due to the greater concentration of Company-owned bakery-cafe openings in immature markets, which experience a slower initial ramp-up of average weekly sales, coupled with lower year-over-year sales price increases in our Company-owned bakery-cafes in 2007 as compared to 2006. The average weekly sales per Company-owned bakery-cafe and the number of operating weeks for the periods indicated are as follows:

	<u>For the 39 Weeks Ended</u>		<u>Percentage Change</u>
	<u>September 25, 2007</u>	<u>September 26, 2006</u>	
Company-owned average weekly sales	\$37,016	\$37,384	-1.0%
Company-owned number of operating weeks	17,263	12,769	35.2%

Franchise royalties and fees for the thirteen weeks ended September 25, 2007 increased 7.9 percent to \$16.3 million compared to \$15.1 million for the thirteen weeks ended September 26, 2006. The components of franchise royalties and fees for the periods indicated are as follows (in thousands):

	For the 13 Weeks Ended	
	September 25, 2007	September 26, 2006
Franchise royalties	\$ 15,767	\$ 14,454
Franchise fees	519	680
Total	\$ 16,286	\$ 15,134

The increase in royalty revenue for the thirteen weeks ended September 25, 2007 compared to the same period in 2006 can be attributed to the opening of 81 franchise-operated bakery-cafes and the purchase of one bakery-cafe from the Company since September 26, 2006 and to a lesser extent the 2.1 percent increase in comparable franchise-operated bakery-cafe sales for the thirteen weeks ended September 25, 2007. Franchise royalties and fees were also positively impacted by the consolidation of royalties and fees from the 22 Paradise franchise-operated bakery-cafes acquired on February 1, 2007 and included in our results prospectively from the acquisition date and partially tempered by the sale of 49 bakery-cafes by franchisees to the Company since September 26, 2006. Franchise-operated bakery-cafes included in comparable sales increases and not included in comparable sales increases contributed 21.1 percent and 78.9 percent, respectively, of the \$27.2 million increase in sales from the comparable period in 2006. The average weekly sales per franchise-operated bakery-cafe and the related number of operating weeks for the periods indicated are as follows:

	For the 13 Weeks Ended		Percentage Change
	September 25, 2007	September 26, 2006	
Franchise-operated average weekly sales	\$38,711	\$38,769	-0.1%
Franchise-operated number of operating weeks	8,677	7,964	9.0%

Franchise royalties and fees for the thirty-nine weeks ended September 25, 2007 increased 10.5 percent to \$49.6 million compared to \$44.9 million for the thirty-nine weeks ended September 26, 2006. The components of franchise royalties and fees for the periods indicated are as follows (in thousands):

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Franchise royalties	\$ 47,691	\$ 42,868
Franchise fees	1,864	2,080
Total	\$ 49,555	\$ 44,948

The increase in royalty revenue for the thirty-nine weeks ended September 25, 2007 compared to the same period in 2006 can be attributed to the opening of 81 franchise-operated bakery-cafes and the purchase of one bakery-cafe from the Company since September 26, 2006 and to a lesser extent the 1.6 percent increase in comparable franchise-operated bakery-cafe sales for the thirty-nine weeks ended September 25, 2007. Franchise royalties and fees were also positively impacted by the consolidation of royalties and fees from the 22 Paradise franchise-operated bakery-cafes acquired on February 1, 2007 and included in our results prospectively from the acquisition date and partially tempered by the sale of 49 bakery-cafes by franchisees to the Company since September 26, 2006. Franchise-operated bakery-cafes included in comparable sales increases and not included in comparable sales increases contributed 12.1 percent and 87.9 percent, respectively, of the \$104.8 million increase in sales from the comparable period in 2006. The average weekly sales per franchise-operated bakery-cafe and the related number of operating weeks for the periods indicated are as follows:

	For the 39 Weeks Ended		Percentage Change
	September 25, 2007	September 26, 2006	
Franchise-operated average weekly sales	\$39,025	\$39,472	-1.1%
Franchise-operated number of operating weeks	26,039	23,090	12.8%

As of September 25, 2007, there were 675 franchise-operated bakery-cafes open and commitments to open 323 additional franchise-operated bakery-cafes. We expect these bakery-cafes to open according to the timetables established in the various Area Development Agreements, referred to as ADAs, with franchisees, with the majority opening in the next four to five years. In 2007, we expect our area developers to open 76 to 79 new franchise-operated bakery-cafes. The ADA requires a franchisee to develop a

specified number of bakery-cafes on or before specific dates. If a franchisee fails to develop bakery-cafes on schedule, we have the right to terminate the ADA and develop Company-owned locations or develop locations through new area developers in that market. We may exercise one or more alternative remedies to address defaults by area developers, including not only development defaults, but also defaults in complying with our operating and brand standards and other covenants under the ADAs and franchise agreements.

Fresh dough sales to franchisees for the thirteen weeks ended September 25, 2007 remained consistent at \$24.7 million as compared to the thirteen weeks ended September 26, 2006. Fresh dough sales to franchisees for the thirty-nine weeks ended September 25, 2007 increased 4.7 percent to \$77.3 million compared to \$73.8 million for the thirty-nine weeks ended September 26, 2006. The increase in fresh dough sales to franchisees was primarily driven by the previously described increased number of franchise-operated bakery-cafes opened and the purchase of one bakery-cafe from the Company since September 26, 2006, partially tempered by the sale of 49 bakery-cafes by franchisees to the Company since September 26, 2006 and lower overall dough sales resulting from a shift in bakery-cafe menu mix away from the bread and bagels we self-manufacture in our fresh dough facilities.

Costs and Expenses

The cost of food and paper products includes the costs associated with the fresh dough operations that sell fresh dough products to Company-owned bakery-cafes, as well as the cost of food and paper products supplied by third-party vendors and distributors. The costs associated with the fresh dough operations that sell fresh dough products to the franchise-operated bakery-cafes are excluded and are shown separately as fresh dough cost of sales to franchisees in the accompanying Consolidated Statements of Operations. The cost of food and paper products was \$75.0 million, or 32.3 percent of bakery-cafe sales, for the thirteen weeks ended September 25, 2007 compared to \$50.0 million, or 30.3 percent of bakery-cafe sales, for the thirteen weeks ended September 26, 2006. The cost of food and paper products was \$200.2 million, or 31.3 percent of bakery-cafe sales, for the thirty-nine weeks ended September 25, 2007 compared to \$141.9 million, or 29.7 percent of bakery-cafe sales, for the thirty-nine weeks ended September 26, 2006. This increase in the cost of food and paper products as a percentage of bakery-cafe sales between the thirteen and thirty-nine weeks ended September 25, 2007 as compared to the same periods in 2006 was primarily due to commodity pressures from items such as dairy, gasoline, wheat and proteins, coupled with general inflationary cost pressures, which outpaced the increase in sales prices over the same periods; a shift in consumer demand to products involving higher ingredient costs; and a modest shift in mix away from bakery-cafe related products such as breads and bagels, which we self-manufacture in our fresh dough facilities, towards baked and sweet goods such as soufflés, scones and muffins, which are produced through a contract manufacturer. Partially offsetting these cost pressures was improved leverage of our fresh dough manufacturing costs due to additional bakery-cafes opening. For the thirteen weeks ended September 25, 2007, there was an average of 56.6 bakery-cafes per fresh dough facility compared to an average of 54.8 for the same period in 2006. For the thirty-nine weeks ended September 25, 2007, there was an average of 55.0 bakery-cafes per fresh dough facility compared to an average of 52.6 for the same period in 2006.

Labor expense was \$75.5 million, or 32.5 percent of bakery-cafe sales, for the thirteen weeks ended September 25, 2007 compared to \$52.1 million, or 31.6 percent of bakery-cafe sales, for the thirteen weeks ended September 26, 2006. Labor expense was \$205.4 million, or 32.1 percent of bakery-cafe sales, for the thirty-nine weeks ended September 25, 2007 compared to \$147.6 million, or 30.9 percent of bakery-cafe sales, for the thirty-nine weeks ended September 26, 2006. The labor expense as a percentage of bakery-cafe sales increased between the thirteen and thirty-nine weeks ended September 25, 2007 as compared to the same periods in 2006 primarily as a result of higher bakery-cafe labor costs incurred in conjunction with the roll-out of certain operational improvement initiatives focusing on our lunch daypart coupled with general inflationary cost pressures, which outpaced the increase in sales prices over the same periods. In addition, labor expense as a percentage of bakery-cafe sales increased between the thirty-nine weeks ended September 25, 2007 as compared to the same period in 2006 as a result of higher bakery-cafe labor costs incurred in support of our evening daypart initiative launched in the third quarter of 2006.

Occupancy cost was \$18.6 million, or 8.0 percent of bakery-cafe sales, for the thirteen weeks ended September 25, 2007 compared to \$12.3 million, or 7.4 percent of bakery-cafe sales, for the thirteen weeks ended September 26, 2006. Occupancy cost was \$50.5 million, or 7.9 percent of bakery-cafe sales, for the thirty-nine weeks ended September 25, 2007 compared to \$34.8 million, or 7.3 percent of bakery-cafe sales, for the thirty-nine weeks ended September 26, 2006. The increase in occupancy cost as a percentage of bakery-cafe sales between the thirteen and thirty-nine weeks ended September 25, 2007 compared to the same periods in 2006 was primarily due to rising average per square foot costs in newer markets outpacing the growth in sales in 2007.

Other operating expenses were \$32.5 million, or 14.0 percent of bakery-cafe sales, for the thirteen weeks ended September 25, 2007 compared to \$24.6 million, or 14.9 percent of bakery-cafe sales, for the thirteen weeks ended September 26, 2006. Other operating expenses were \$87.8 million, or 13.7 percent of bakery-cafe sales, for the thirty-nine weeks ended September 25, 2007 compared to \$67.1 million, or 14.1 percent of bakery-cafe sales, for the thirty-nine weeks ended September 26, 2006. The decrease in

other operating expenses rate for the thirteen and thirty-nine weeks ended September 25, 2007 compared to the same periods in 2006 is primarily due to lower local marketing expenses incurred in support of our evening daypart initiative in 2007 as compared to 2006.

Fresh dough facility cost of sales to franchisees was \$20.1 million, or 81.6 percent of fresh dough facility sales to franchisees, for the thirteen weeks ended September 25, 2007, compared to \$20.3 million, or 82.2 percent of fresh dough facility sales to franchisees, for the thirteen weeks ended September 26, 2006. Fresh dough facility cost of sales to franchisees was \$63.6 million, or 82.2 percent of fresh dough facility sales to franchisees, for the thirty-nine weeks ended September 25, 2007, compared to \$62.8 million, or 85.2 percent of fresh dough facility sales to franchisees, for the thirty-nine weeks ended September 26, 2006. The decrease in the fresh dough facility cost of sales rate for the thirteen and thirty-nine weeks ended September 25, 2007 compared to the same periods in 2006 is primarily due to improved operating efficiencies in the fresh dough facilities as average bakery-cafes served per fresh dough facility has continued to increase in 2007 as compared to the same periods in 2006, partially offset by modestly unfavorable input costs.

General and administrative expenses were \$18.4 million, or 6.7 percent of total revenue, for the thirteen weeks ended September 25, 2007 compared to \$16.6 million, or 8.1 percent of total revenue, for the thirteen weeks ended September 26, 2006. General and administrative expenses were \$52.9 million, or 6.9 percent of total revenue, for the thirty-nine weeks ended September 25, 2007 compared to \$45.4 million, or 7.6 percent of total revenue, for the thirty-nine weeks ended September 26, 2006. The decrease in the general and administrative expenses rate for the thirteen and thirty-nine weeks ended September 25, 2007 compared to the same periods in 2006 was primarily due to lower local marketing expenses incurred in support of our evening daypart initiative in 2007 as compared to 2006, lower legal costs in 2007 as significant legal costs were incurred in 2006 related to litigation that was favorably resolved in the third quarter of 2006, and disciplined expense management.

Other Income and Expense

Other income and expense for the thirteen weeks ended September 25, 2007 decreased to \$0.1 million of income, or 0.1 percent of total revenue, from \$0.9 million of income, or 0.4 percent of total revenue, for the thirteen weeks ended September 26, 2006. Other income and expense for the thirty-nine weeks ended September 25, 2007 decreased to \$0.7 million of income, or 0.1 percent of total revenue, from \$2.6 million of income, or 0.4 percent of total revenue, for the thirty-nine weeks ended September 26, 2006. The decrease in other income and expense for the thirteen and thirty-nine weeks ended September 25, 2007 compared to the same periods in 2006 was primarily from lower interest income in 2007 resulting from lower cash and investments on-hand in 2007; a charge of approximately \$0.2 million in the first quarter of 2007 stemming from the Paradise acquisition; and a charge of approximately \$1.1 million in the second quarter of 2007 relating to the termination of franchise agreements for certain acquired franchise-operated bakery-cafes that operated at a royalty rate lower than the current market royalty rates. Partially offsetting these items was a \$0.5 million gain from the sale of a bakery-cafe to a franchisee in the second quarter of 2007. See Note C to the accompanying consolidated financial statements for further information with respect to the acquisition charges and gain on sale of the bakery-cafe.

Income Taxes

The provision for income taxes decreased to \$4.6 million for the thirteen weeks ended September 25, 2007 compared to \$6.3 million for the thirteen weeks ended September 26, 2006. The provision for income taxes decreased to \$19.5 million for the thirty-nine weeks ended September 25, 2007, compared to \$23.0 million for the thirty-nine weeks ended September 26, 2006. The tax provision for the thirteen weeks ended September 25, 2007 and September 26, 2006 reflects a combined federal, state, and local effective tax rate of 27.8 percent and 36.5 percent, respectively. The tax provision for the thirty-nine weeks ended September 25, 2007 and September 26, 2006 reflects a combined federal, state, and local effective tax rate of 32.9 percent and 36.5 percent, respectively. The tax provision for the thirteen and thirty-nine weeks ended September 25, 2007 includes a \$1.5 million tax benefit reflecting the expiration of the statute of limitations on the recovery of certain previously deducted expenses. The tax provision for the thirty-nine weeks ended September 25, 2007 also includes a \$0.8 million favorable provision to return adjustment to fully recognize the benefit of deductions not previously recognized. Additionally, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, effective December 27, 2006. As a result of the implementation of FIN 48, we increased our existing reserves for uncertain tax positions by \$1.2 million in the first quarter of 2007, largely related to state income tax matters. Of this amount, \$0.4 million was recorded as deferred tax assets relating to the estimated federal tax benefits and \$0.8 million was recorded as a cumulative-effect adjustment to the beginning balance of retained earnings. See Note G to the accompanying consolidated financial statements for further information with respect to the adoption of FIN 48.

Liquidity and Capital Resources

Cash and cash equivalents were \$17.0 million at September 25, 2007 compared with \$52.1 million at December 26, 2006. Our principal requirements for cash are capital expenditures for the development of new Company-owned bakery-cafes; for maintaining or remodeling existing Company-owned bakery-cafes; for purchasing existing franchise-operated bakery-cafes or ownership interests in other restaurant or bakery-cafe concepts; for developing, remodeling and maintaining fresh dough facilities; and for enhancements of information systems and other infrastructure capital investments. See Note C to the accompanying consolidated financial statements for the 51 percent acquisition of Paradise on February 1, 2007 and the acquisitions of franchise-operated bakery-cafes on February 28, 2007 and June 21, 2007.

We had a working capital deficit of \$25.7 million at September 25, 2007 compared to an \$18.0 million surplus at December 26, 2006. This decrease in working capital from December 26, 2006 to September 25, 2007 resulted primarily from a decrease in cash and cash equivalents of \$35.1 million and a decrease in investments in current government securities of \$20.0 million, partially offset by a decrease in accrued expenses of \$10.8 million, an increase in prepaid expenses of \$3.4 million, and an increase in deferred taxes of \$3.1 million. We have experienced no liquidity difficulties and have historically been able to finance our operations through internally generated cash flow.

	For the 39 Weeks Ended	
	September 25, 2007	September 26, 2006
Cash provided by (used in):		
Operating activities	\$ 87,836	\$ 67,539
Investing activities	(133,950)	(54,295)
Financing activities	10,986	8,283
Total	<u>\$ (35,128)</u>	<u>\$ 21,527</u>

Operating Activities

Funds provided by operating activities for the thirty-nine weeks ended September 25, 2007 and the thirty-nine weeks ended September 26, 2006 were \$87.8 million and \$67.5 million, respectively. Funds provided by operating activities for the thirty-nine weeks ended September 25, 2007 primarily resulted from net income, depreciation and amortization, a decrease in trade and other receivables, and an increase in deferred rent and non-acquisition accrued expenses, partially offset by an increase in prepaid expenses and deferred income taxes.

Investing Activities

Total capital expenditures for the thirty-nine weeks ended September 25, 2007 were \$86.6 million consisting primarily of \$62.9 million related to the opening of 50 Company-owned bakery-cafes and the costs incurred on Company-owned bakery-cafes to be opened in the fourth quarter of 2007 and the first quarter of 2008; 14.3 million for the maintaining or remodeling of existing bakery-cafes and fresh dough facilities; and \$9.4 million costs incurred on information technology and infrastructure. Total capital expenditures were \$74.1 million for the thirty-nine weeks ended September 26, 2006 and consisted primarily of \$54.4 million related to the opening of 44 Company-owned bakery-cafes and the costs incurred on Company-owned bakery-cafes to be opened in the fourth quarter of 2006 and first quarter of 2007; \$9.3 million for the maintaining or remodeling of existing bakery-cafes and fresh dough facilities; and \$10.4 million costs incurred on information technology and infrastructure.

Cash flows for acquisitions, net of cash acquired, for the thirty-nine weeks ended September 25, 2007, totaled \$69.2 million comprised of the acquisition of 51 percent of the outstanding stock of Paradise on February 1, 2007; the acquisition of six bakery-cafes (two of which were under construction) from the R&S Bread Group, Inc. franchisee on February 28, 2007; the acquisition of 10 and 22 bakery-cafes from the SLB of Central Illinois, L.L.C. and SLB of Minnesota, L.L.C. franchisees, respectively, on June 21, 2007; and required payments of a portion of the remaining acquisition purchase price for R&S Bread Group, Inc., Paradise, and Panebraska, L.L.C. In total, we had \$4.3 million of accrued purchase price as of September 25, 2007 affiliated with acquisitions completed in fiscal 2006 and 2007, which is anticipated to be paid within the next twelve months. See Note C to the accompanying consolidated financial statements for further information with respect to the acquisition activity in 2007.

There were no investments in government securities as of September 25, 2007. As of December 26, 2006, we had investments of \$20.0 million in United States treasury notes and government agency securities. Investments are classified as short or long-term in the accompanying Consolidated Balance Sheets based upon their stated maturity dates. As of December 26, 2006, our investments were classified as held-to-maturity as we had the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums to maturity, which approximated fair value as of December 26, 2006.

Financing Activities

Financing activities provided \$11.0 million and \$8.3 million for the thirty-nine weeks ended September 25, 2007 and September 26, 2006, respectively. The financing activities for the thirty-nine weeks ended September 25, 2007 included \$6.3 million from the exercise of stock options; \$3.4 million from the tax benefit from exercise of stock options; and \$1.3 million from the issuance of common stock under employee benefit plans. The financing activities for the thirty-nine weeks ended September 26, 2006 included \$4.5 million from the exercise of stock options; \$2.7 million from the tax benefit from exercise of stock options; and \$1.1 million from the issuance of common stock under employee benefit plans.

Critical Accounting Policies & Estimates

Our discussion and analysis of our financial condition and results of operations is based upon the accompanying consolidated financial statements and notes to the accompanying consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of the accompanying consolidated financial statements requires us to make estimates, judgments and assumptions, which we believe to be reasonable, based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. Variances in the estimates or assumptions used could yield materially different accounting results. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances.

We have chosen accounting policies we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. As described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 26, 2006, we consider our policies on accounting for revenue recognition, goodwill, stock-based compensation, self-insurance, and lease obligations to be the most critical in the preparation of the accompanying consolidated financial statements because they involve the most difficult, subjective, or complex judgments about the effect of matters that are inherently uncertain. There have been no material changes to our application of critical accounting policies and significant judgments and estimates since December 26, 2006.

Contractual Obligations and Other Commitments

We currently anticipate total capital expenditures for fiscal year 2007 of approximately \$125 million to \$141 million, which consists of the following: \$90 million to \$100 million related to the opening of at least 89 new Company-owned bakery-cafes and the costs incurred on early 2008 openings, \$17 million to \$20 million related to the remodeling of existing bakery-cafes, \$8 million to \$10 million related to the opening of new fresh dough facilities and the remodeling and expansion of existing fresh dough facilities, and \$10 million to \$11 million on our concept, information technology, and infrastructure. We expect future bakery-cafes will require, on average, an investment per bakery-cafe (excluding pre-opening expenses which are expensed as incurred) of approximately \$0.9 million, which is net of landlord allowances. We expect to fund these expenditures principally through internally generated cash flow and cash from the exercise of employee stock options.

In addition to our capital expenditure requirements, we have certain other contractual and committed cash obligations. Our contractual cash obligations consist of purchase obligations and noncancelable operating leases for our bakery-cafes, fresh dough facilities and trucks, and administrative offices. Lease terms for our trucks are generally for five to seven years. Lease terms for our bakery-cafes, fresh dough facilities, and administrative offices are generally for ten years with renewal options at most locations and generally require us to pay a proportionate share of real estate taxes, insurance, common area, and other operating costs. Many bakery-cafe leases provide for contingent rental (i.e., percentage rent) payments based on sales in excess of specified amounts. Certain of our lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing at a date other than the date of initial occupancy.

Off-Balance Sheet Arrangement – We are the prime tenant for operating leases of 13 franchisee locations and a guarantor for operating leases of 16 locations of our former Au Bon Pain division, or its franchisees. The leases have terms expiring on various dates from November 2007 to December 2018 and have a potential amount of future rental payments of approximately \$17.7 million. The obligation from these leases will generally continue to decrease over time as these operating leases expire. We have not recorded a liability for these guarantees pursuant to the provisions of FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements For Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*, or FIN 45, as of September 25, 2007, as we do not believe it is probable we would be required to perform under any guarantees at that date. Also, we have not had to make any payments related to the leases. Au Bon Pain or the applicable franchisee continues to have primary liability for these operating leases.

Our 51 percent owned Paradise subsidiary has guaranteed 10 operating leases on behalf of its franchisees. The leases have terms expiring on various dates from October 2009 to January 2014 and have a potential amount of rental payments of approximately \$3.4 million at September 25, 2007. The obligation from these leases will generally continue to decrease over time as these operating leases expire. There is no liability reflected for these guarantees pursuant to the provisions of FIN 45 as of September 25, 2007, as we do not believe it is probable Paradise would be required to perform under any guarantees at that date. Also, we have not had to make any payments related to the leases. The applicable franchisee continues to have primary liability for these operating leases.

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, or SFAS 159. Under SFAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. If elected, SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing whether fair value accounting is appropriate for any of our eligible items and have not yet determined the impact, if any, on our financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measures*, or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently reviewing the provisions of SFAS 157 to determine the impact, if any, on our financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in the quantitative and qualitative information about market risk since the end of the most recent fiscal year. For further information, see Item 7A of our Annual Report on Form 10-K for the year ended December 26, 2006.

Item 4. Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of September 25, 2007. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act are accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company’s disclosure controls and procedures as of September 25, 2007, the Company’s Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

No change in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the third quarter ended September 25, 2007 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Part I — Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2006 describes important factors that could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time-to-time. These factors include but are not limited to the following:

- Our ability to increase our revenue and operating profits could be adversely affected if we are unable to execute our growth strategy.
- Our growth strategy depends on continued development by our franchisees. If our franchisees do not continue to successfully open new bakery-cafes, our business could be adversely affected.
- If we fail to comply with governmental regulations or if these regulations change, our business could suffer.
- If we expand into foreign markets we may be exposed to uncertainties and risks, which could negatively impact our results of operations.
- Loss of senior management or the inability to recruit and retain other associates could adversely affect our future success.
- Our failure or inability to protect our brand, trademarks or other proprietary rights could adversely affect our business and competitive position.
- Competition may adversely affect our operations and results of operations.
- Rising insurance costs could negatively impact our profitability.
- Disruptions in our supply chain or increases in ingredient, product and other supply costs could adversely affect our profitability and operating results.
- Disruptions or supply issues in our fresh dough facilities could adversely affect our business and results of operations.
- Customer preferences and traffic could be negatively impacted by health concerns about the consumption of certain products.
- We are subject to complaints and litigation that could have an adverse affect on our business.
- We are subject to periodic new accounting pronouncements that could have a material adverse impact on our profitability or results of operations.
- We periodically acquire existing bakery-cafes from our franchisees or ownership interests in other restaurant or bakery-cafe concepts, which could adversely affect our results of operations.
- Our operating results fluctuate due to a number of factors, some of which may be beyond our control, and any of which may adversely affect our financial condition.

See Part I — Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2006 for a further description regarding some of the reasons that our actual operating results may differ materially from those that we anticipate.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2006.

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

Pursuant to our 2005 Long-Term Incentive Program, which we refer to as the 2005 LTIP, participants in the 2005 LTIP may surrender shares to us as payment of applicable tax withholding on the vesting of restricted stock. Shares so surrendered by the 2005 LTIP participants are repurchased by us pursuant to the terms of the 2005 LTIP and the applicable award agreements and not pursuant to publicly announced share repurchase programs. The following table provides information with respect to shares of our common stock that were surrendered to us by 2005 LTIP participants during the three months ended September 25, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Program
June 27, 2007 — July 24, 2007	—	\$ —	—	\$ —
July 25, 2007 — August 28, 2007	—	\$ —	—	\$ —
August 29, 2007 — September 25, 2007	6,369	\$43.83	—	\$ —

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of Registrant, as amended through June 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 13, 2002.
3.2	Amended and Restated Bylaws of Registrant, as amended through March 9, 2006. Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, dated March 9, 2006 and filed on March 15, 2006.
10.1	1992 Employee Stock Purchase Plan, as amended. *
31.1	Certification by Chief Executive Officer. *
31.2	Certification by Chief Financial Officer. *
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer and Chief Financial Officer. *

* Filed herewith.

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.

Panera Bread Company
(REGISTRANT)

Dated: November 2, 2007 By: /s/ Ronald M. Shaich
Ronald M. Shaich
Chairman and Chief Executive Officer
(on behalf of registrant and as principal executive officer)

Dated: November 2, 2007 By: /s/ Neal J. Yanofsky
Neal J. Yanofsky
President

Dated: November 2, 2007 By: /s/ Jeffrey W. Kip
Jeffrey W. Kip
Senior Vice President, Chief Financial Officer

Dated: November 2, 2007 By: /s/ Amy L. Kuzdowicz
Amy L. Kuzdowicz
Vice President, Controller

Dated: November 2, 2007 By: /s/ Mark D. Wooldridge
Mark D. Wooldridge
Director, External Reporting, Chief Accounting Officer

EXHIBIT INDEX

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* Filed herewith.

**EMPLOYEE STOCK PURCHASE PLAN
FOR
PANERA BREAD COMPANY
(as amended August 10, 2007)**

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Employee Stock Purchase Plan
for Panera Bread Company, as
amended August 10, 2007

EMPLOYEE STOCK PURCHASE PLAN

WHEREAS, in 1992, pursuant to a vote of its stockholders, Panera Bread Company (the "Company") established an Employee Stock Purchase Plan (the "Plan") providing for the grant of options to purchase common stock of the Company to employees who are employed by the Company or its subsidiaries on a regular full-time basis; and

WHEREAS, in 1997, the Plan was amended pursuant to a vote of the stockholders of the Company; and

WHEREAS, in May 2007, the Plan was further amended pursuant to a vote of the stockholders of the Company; and

WHEREAS, in August 2007, the Plan was further amended pursuant to the authority of the Committee.

NOW, THEREFORE, the Plan, as previously established and amended, and as approved by the stockholders or the Committee, as appropriate, is hereby further amended as follows:

Employee Stock Purchase Plan
for Panera Bread Company, as
amended August 10, 2007

Page iii

ARTICLE 1. PURPOSE OF THE PLAN

The purpose of this Employee Stock Purchase Plan is to give eligible employees of Panera Bread Company, a Delaware corporation, and its Designated Subsidiaries, an opportunity to acquire shares of its Common Stock, and to continue to promote its best interests and enhance its long-term performance.

Employee Stock Purchase Plan
for Panera Bread Company, as
amended August 10, 2007

ARTICLE 2. DEFINITIONS

Wherever used herein, the following words and phrases shall have the meanings stated below unless a different meaning is plainly required by the context:

2.1 Beneficiary. Beneficiary means the person or persons designated by an Eligible Employee pursuant to Section 7.2.

2.2 Board. Board means the Board of Directors of the Company.

2.3 Code. Code means the Internal Revenue Code of 1986, as amended.

2.4 Committee. Committee means the Compensation and Stock Option Committee of the Board.

2.5 Common Stock. Common Stock means shares of the Class A Common Stock of the Company.

2.6 Company. Company means Panera Bread Company, a Delaware corporation.

2.7 Designated Subsidiary. Designated Subsidiary means any subsidiary of the Company (as defined in Section 424(f) of the Code) designated by the Board or Committee from time to time.

2.8 Eligible Employee. Eligible Employee means an employee who has met the requirements set forth in Section 5.1.

2.9 Fair Market Value of Common Stock as of the Applicable Grant Date. Fair Market Value of Common Stock as of the applicable Grant Date shall mean:

(a) The closing price of the Common Stock on the last day of the calendar quarter or the nearest prior business day on which trading occurred on the exchange or market system on which the Common Stock is listed.

(b) If the Common Stock is not traded on either of the aforesaid dates, then such value as the Committee, in good faith, shall determine.

Notwithstanding any provision of the Plan to the contrary, no determination made with respect to the Fair Market Value of Common Stock subject to an Option shall be inconsistent with Section 423 of the Code or regulations thereunder.

2.10 Grant Date. Grant Date means any Quarterly Grant Date.

2.11 Option. Option means an option granted hereunder which will entitle a Participant to purchase shares of Common Stock.

2.12 Option Price. Option Price means 85 percent of the Fair Market Value per share of Common Stock as of the applicable Grant Date or such other greater percentage of the Fair Market Value per share of Common Stock as is set by the Board.

2.13 Participant. Participant means an Eligible Employee who has commenced participation in the Plan pursuant to Section 5.3 hereof.

2.14 Plan. Plan means the Panera Bread Company Employee Stock Purchase Plan as set forth herein.

2.15 Quarterly Grant Date. Quarterly Grant Date means the last business day of each calendar quarter.

ARTICLE 3. ADMINISTRATION

The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have discretion to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, determine the terms and provisions of the Options granted hereunder and make all other determinations necessary or advisable for administration of the Plan. The determination of the Committee on all matters regarding the Plan shall be conclusive. A member of the Committee shall only be liable for any action taken or determination made in bad faith.

ARTICLE 4. MAXIMUM LIMITATIONS

The total number of shares of Common Stock available for grant as Options under the Plan shall not exceed 825,000, and the aggregate number of shares of Common Stock available for grant as Options pursuant to Section 5.1 shall not exceed 20,000 as of any Quarterly Grant Date, subject to adjustment pursuant to Article 8 hereof. Shares of Common Stock granted pursuant to the Plan may be either authorized but unissued shares or shares now or hereafter held in the treasury of the Company. In the event that any Option granted pursuant to Article 5 expires or is terminated, surrendered or cancelled without being exercised, in whole or in part, for any reason, the number of shares of Common Stock theretofore subject to such Option shall again be available for grant as an Option pursuant to Article 5 and shall not reduce the total number of shares of Common Stock available for grant as such Options as set forth in the first sentence of this Article 4.

ARTICLE 5. BASIS OF PARTICIPATION AND GRANTING OPTIONS

5.1 Initial Eligibility. Any employee of the Company or a Designated Subsidiary who has completed three (3) months of employment and is employed by the Company or a Designated Subsidiary on the date his participation in the Plan is to become effective shall be eligible to participate as of the first day of the calendar quarter immediately following completion of such three (3) month period, provided any Employee who is employed after the first day of the month shall be deemed to have been employed for the entire month in which his employment commences. Provided further no employee shall be an Eligible Employee if such employee works on average less than 20 hours per week during such three (3) month period.

5.2 Restrictions on Participation. Notwithstanding any provisions in the Plan to the contrary, no Employee shall be granted an Option to participate in the Plan;

(a) If immediately after the grant such Employee would own stock, and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company (for purposes of this paragraph, the rules of Section 424(d) of the Code shall apply in determining stock ownership of any employee); or

(b) Which permits his right to purchase stock under all employee stock purchase plans of the Company to accrue at a rate which exceeds \$25,000 in fair market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding.

5.3 Commencement of Participation. An Eligible Employee may become a Participant by completing an authorization for payroll deduction in any whole percentage equal to no less than 1% and no more than 10% of his compensation as defined in Section 5.6 of this Plan on the form provided by or on behalf of the Company and filing it with the Director, Human Resources Administration prior to the last business day of the quarter or as otherwise determined by the Committee. Payroll deductions shall commence on the first day of the calendar quarter following his completion of an enrollment form and shall end at such time as the Participant withdraws from the Plan in accordance with the provisions of Article 6. A Participant may decrease the amount of his payroll deduction once during any calendar quarter. Increases in payroll deduction shall be effective as of the first day of the calendar quarter following such increase.

5.4 Maximum Options Available to Participant. Unless a Participant has withdrawn as provided in Article 6, each Participant on a Quarterly Grant Date, commencing with the Quarterly Grant Date, and, subject to earlier termination of the Plan pursuant to Section 12.2 hereof, ending with the last Quarterly Grant Date on which shares of Common Stock are available for grant within the limitations set forth in Article 4, shall be deemed to have automatically exercised the Option granted hereunder which will entitle him to purchase, at the Option Price per share applicable to

such Quarterly Grant Date, the whole number of shares of Common Stock equal to the lesser of the amount of compensation the Participant has elected to defer divided by such applicable Option Price per share of Common Stock or 1,000 shares of Common Stock. The Quarterly Grant Date applicable to an Option granted pursuant to this Section 5.4 shall be the date of grant of such Option. Unused payroll deductions will be automatically refunded to the Participant or his brokerage or other personal account, without interest, except that any amount of unused payroll deductions which is less than the purchase price of one share of Common Stock will be carried forward and used in the next calendar quarter, unless the Participant elects to withdraw in the next calendar quarter, in which case all of the unused payroll deductions will be refunded in accordance with Section 6.1 of the Plan.

5.5 Reduction if Oversubscribed. If the number of shares of Common Stock for which Options are granted pursuant to Section 5.4 of this Article 5 exceeds the applicable number set forth in Article 4, then the Options granted under the applicable paragraph to all Participants shall, in a nondiscriminatory manner which shall be consistent with Section 11.2 of the Plan, be reduced in proportion to their respective compensation.

5.6 Compensation. An Eligible Employee's compensation means, for purposes of Section 5.3, the Eligible Employee's annual rate of compensation as of the applicable Quarterly Grant Date. Such annual rate of compensation shall be determined by the Committee in a nondiscriminatory manner which shall be consistent with Section 11.2 of the Plan.

ARTICLE 6. WITHDRAWAL

6.1 In General. A Participant may withdraw under the Plan at any time by giving written notice to the Director, Human Resources Administration, which such withdrawal will be processed promptly by the Company. Withdrawal must be in whole and not in part. All of the Participant's payroll deductions will be refunded to the Participant or his brokerage or other personal account, without interest, promptly after receipt of his notice of withdrawal and no further payroll deductions will be made from his pay during the calendar quarter in which he withdraws.

6.2 Effect on Subsequent Participation. A Participant's withdrawal from the Plan will not have any effect on his ability to participate in any future Options or in any similar plan which may be hereafter adopted by the Company. Notwithstanding the foregoing, if a Participant withdraws twice during a Plan Year, such Participant may not again elect to participate until the first day of the next following Plan Year.

6.3 Termination of Employment. Upon termination of the Participant's employment for any reason, the payroll deductions credited to his participation will be returned to him or his brokerage or other personal account, without interest, or in the case of his death subsequent to the termination of his employment, to the person or persons entitled thereto under Section 7.2 or to the Participant's account. If, prior to the Quarterly Grant Date, the Designated Subsidiary by which an employee is employed shall cease to be a subsidiary of the Company, or the employee is transferred to a subsidiary of the Company that is not a Designated Subsidiary, the employee shall be deemed to have terminated his employment for the purposes of the Plan.

ARTICLE 7. TRANSFERABILITY

7.1 Option Not Subject to Assignment. No Option may be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except as provided by will or the applicable laws of descent or distribution, and no Option shall be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option, or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect. An Option may be exercised only by the Participant during his lifetime.

7.2 Designation of Beneficiary. A Participant may file a written designation of a Beneficiary who is to receive any stock and/or cash. Such designation of Beneficiary may be changed by the Participant at any time by written notice to the Director, Human Resources Administration. In the event the Participant fails to designate a Beneficiary, the Participant's spouse shall be deemed to be the Beneficiary. If the Participant is unmarried at the time of death, the Participant's estate shall be deemed to be the Beneficiary.

ARTICLE 8. ADJUSTMENT PROVISIONS

The aggregate number of shares of Common Stock with respect to which Options may be granted, the aggregate number of shares of Common Stock subject to each outstanding Option, and the Option Price per share of each Option may all be appropriately adjusted as the Board may determine for any increase or decrease in the number of shares of issued Common Stock resulting from a subdivision or consolidation of shares, whether through reorganization, recapitalization, stock split-up, stock distribution or combination of shares, or the payment of a share dividend or other increase or decrease in the number of such shares outstanding effected without receipt of consideration by the Company. Adjustments under this Article 8 shall be made according to the sole discretion of the Board, and its decision shall be binding and conclusive.

ARTICLE 9. DISSOLUTION, MERGER AND CONSOLIDATION

Upon the dissolution or liquidation of the Company, or upon a merger or consolidation of the Company in which the Company is not the surviving corporation, each Option granted hereunder shall expire as of the effective date of such transaction; provided, however, that the Board shall give written notice of such event to each Participant providing that (i) each such Participant will have a right to exercise his wholly or partially unexercised Option to the extent of accumulated payroll deductions as of a date specified by the Board in the notice and prior to the effective date of such transaction, subject to the restrictions set forth in the Plan or (ii) all outstanding Options will be cancelled as of a date prior to the effective date of such transaction and that all accumulated payroll deductions will be refunded to the Participant or his brokerage or other personal account, without interest.

ARTICLE 10. CONDITIONS SUBSEQUENT TO EFFECTIVE DATE

The Plan is subject to the approval of the Plan by the holders of a majority of the outstanding shares of Common Stock of the Company within 12 months before or after the date of adoption of the Plan by the Board. The Plan shall be null and void and of no effect if the foregoing condition is not fulfilled.

Employee Stock Purchase Plan
for Panera Bread Company, as
amended August 10, 2007

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ARTICLE 11. LIMITATION ON OPTIONS

Notwithstanding any other provisions of the Plan:

11.1 Plan Construction. The Company intends that Options granted and Common Stock issued under the Plan shall be treated for all purposes as granted and issued under an employee stock purchase plan within the meaning of Section 423 of the Code and regulations issued thereunder. Any provisions required to be included in the Plan under said Section and regulations issued thereunder are hereby included as fully and though set forth in the Plan at length. Words used in the Plan, regardless of the number of gender specifically used, will be deemed and construed to include any other number or plural, and any other gender, masculine, feminine or neuter, as the context requires.

11.2 Nondiscrimination. All Eligible Employees shall have the same rights and privileges under the Plan, except that the amount of Common Stock which may be purchased under Options granted on any Quarterly Grant Date, pursuant to Section 5.4, shall bear a uniform relationship to the compensation of Eligible Employees. All rules and determinations of the Board in the administration of the Plan shall be uniformly and consistently applied to all persons in similar circumstances.

ARTICLE 12. MISCELLANEOUS

12.1 Legal and Other Requirements. The obligations of the Company to sell and deliver Common Stock under the Plan shall be subject to all applicable laws, regulations, rules and approvals, including, but not by way of limitation, the effectiveness of a registration statement under the Securities Act of 1933 if deemed necessary or appropriate by the Company. Certificates for shares of Common Stock issued hereunder may be legended as the Board shall deem appropriate.

12.2 Termination and Amendment of the Plan. The Board, without further action on the part of the stockholders of the Company to the extent permitted by law, regulation and stock exchange requirements, may from time to time alter, amend or suspend the Plan or any Option granted hereunder or may at any time terminate the Plan, except that it may not effect a change inconsistent with Section 423 of the Code or regulations issued thereunder. No action taken by the Board under this Section may materially and adversely affect any outstanding Option without the consent of the holder thereof.

12.3 Application of Funds. The proceeds received by the Company from the sale of Common Stock pursuant to Options will be used for general corporate purposes.

12.4 Withholding Taxes. Upon the exercise of any Option under the Plan, the Company shall have the right to require the Participant to remit to the Company an amount sufficient to satisfy all federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for shares of Common Stock.

12.5 Right to Terminate Employment. Nothing in the Plan or any agreement entered into pursuant to the Plan shall confer upon any Eligible Employee or Participant the right to continue in the employment of the Company or any Designated Subsidiary or affect any right which the Company or any Designated Subsidiary may have to terminate the employment of such Eligible Employee or Participant.

12.6 Rights as a Stockholder. No Participant shall have any right as a stockholder unless and until certificates for shares of Common Stock are issued to him.

12.7 Leaves of Absence and Disability. Subject to applicable law, the Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any leave of absence taken by or disability of any Eligible Employee or Participant. Without limiting the generality of the foregoing, the Board shall be entitled to determine, subject to applicable law, (i) whether or not any such leave of absence shall constitute a termination of employment within the meaning of the Plan, and (ii) the impact, if any, of such leave of absence on Options under the Plan theretofore granted to any Eligible Employee or Participant who takes such leave of absence.

12.8 Notices. Every direction, revocation or notice authorized or required by the Plan shall be deemed delivered to the Company (1) on the date it is personally delivered to the Director, Human Resources Administration of the Company at its principal executive offices or (2) three business days after it is sent by registered or certified mail, postage prepaid, addressed to the Director, Human Resources Administration at such offices; and shall be deemed delivered to the Participant (1) on the date it is personally delivered to him or (2) three business days after it is sent by registered or certified mail, postage prepaid, addressed to him at the last address shown for him or her on the records of the Company or of any Designated Subsidiary.

12.9 Applicable Law. All questions pertaining to the validity, construction and administration of the Plan and Options granted hereunder shall be determined in conformity with the laws of Delaware, to the extent not inconsistent with Section 423 of the Code and regulations thereunder.

12.10 Elimination of Fractional Shares. If under any provision of the Plan which requires a computation of the number of shares of Common Stock subject to an Option, the number so computed is not a whole number of shares of Common Stock, such number of shares of Common Stock shall be rounded down to the next whole number.

CERTIFICATION

I, Ronald M. Shaich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 25, 2007 of Panera Bread Company;
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(s) 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 fiscal 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(s) 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.

Dated: November 2, 2007

/s/ Ronald M. Shaich

Ronald M. Shaich

Chairman and Chief Executive Officer

CERTIFICATION

I, Jeffrey W. Kip, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 25, 2007 of Panera Bread Company;
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(s) 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 fiscal 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(s) 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.

Dated: November 2, 2007

/s/ Jeffrey W. Kip

Jeffrey W. Kip

Senior Vice President, Chief Financial 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 Panera Bread Company on Form 10-Q for the quarterly period ended September 25, 2007 (the "Report"), as filed with the Securities and Exchange Commission, we, Ronald M. Shaich, Chairman and Chief Executive Officer, and Jeffrey W. Kip, Chief Financial Officer, certify, to the best of our knowledge and belief, pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of Panera Bread Company.

Dated: November 2, 2007

/s/ Ronald M. Shaich

Ronald M. Shaich
Chairman and Chief Executive Officer

Dated: November 2, 2007

/s/ Jeffrey W. Kip

Jeffrey W. Kip
Senior Vice President, Chief Financial Officer