

Chain buys 51% stake in Paradise Bakery

By Erica Sagon

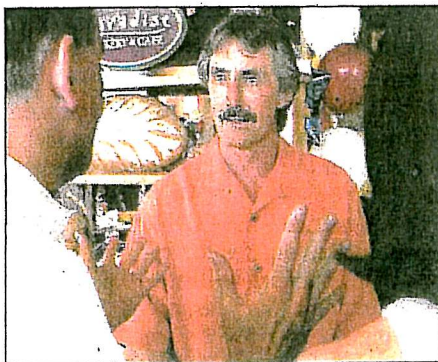
THE ARIZONA REPUBLIC

Panera Bread Co. has scrapped plans to open stores in the Valley and instead will buy a majority stake in Paradise Bakery & Café, a Scottsdale-based rival, rather than compete with it on its home turf.

Panera, a St. Louis-based specialty sandwich chain with 1,000 restaurants nationwide, said Monday that it had agreed to pay \$21.1 million for 51 percent of the outstanding stock of the smaller chain, which has 44 stores, primarily in the West.

Both companies operate similar upscale bakery-cafes that sell sandwiches, soups, salads, pastries and coffee, but Paradise Bakery has gained a loyal following in the Valley that even a giant like

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Dan Patterson, president and founder of Paradise Bakery, greets customers as a store opens in April in north Scottsdale.

Panera buys majority stake in Paradise Bakery

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Panera would have difficulty cracking.

"There's no purpose in competing with them," said Jeff Kip, Panera's chief financial officer.

Paradise Bakery President Dan Patterson said the company's stores, menu and corporate structure will stay the same.

The company has 24 bakery-cafes. It also franchises 20 additional locations.

Paradise Bakery started in Southern California in 1976 and opened its first store in the Valley in 1987.

Patterson said that he had

had no plans to strike a deal with a competitor and that the agreement with Panera "came out of the blue."

"We're not looking to Panera-ize Paradise," Patterson said, adding that the deal will let his company expand in the Valley "without the slight concern of another solid competitor coming in."

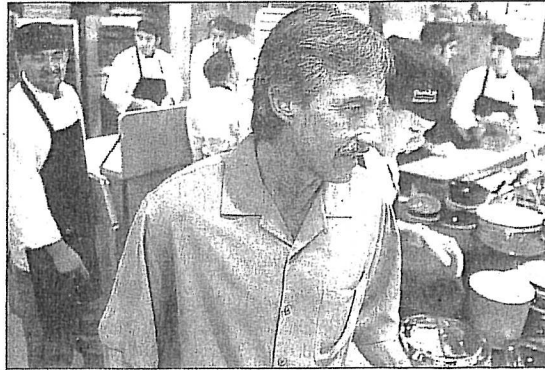
"We're not looking to Panera-ize Paradise."

Dan Patterson
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Panera was planning to franchise roughly 30 stores in the Valley. The first store was set to open in Scottsdale this month.

This marks the first time that Panera has bought a stake in a regional competitor.

"Our focus is to do anything we can to support Paradise in



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Dan Patterson monitors activity in the kitchen area of a Paradise Bakery location during its grand opening in north Scottsdale.

its operations and growth and concept development," Kip said.

"We have no plans to make

any changes. It's going to run as it has."

Under the deal, Panera can buy the remaining 49 percent

of Paradise's outstanding stock in 2009.

Otherwise, Paradise Bakery can buy back Panera's stake at that time.

Ashley Woodruff, an analyst for Friedman, Billings, Ramsey & Co. Inc., wrote in a research note Monday that Panera could be making a mistake by not opening its branded stores in the Phoenix area.

"Management realized that it would rather own than compete with Paradise," Woodruff said in the report.

"We view this as a slight negative in the long term, because another concept, even a regional one, limits the benefits of Panera's national brand."

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