Panera Bread Company operates and franchises bakery-cafes in about 44 states and Canada. As of Q4-13, it had 1,736 company-owned and franchised locations. Stores operate under the Panera Bread, St. Louis Bread, and Paradise Bakery & Cafe names. Supplies fresh dough to company and franchised stores. Sold $992.2 million of 2-for-1 stock division. Has about 36,300 employees. Chairman and CEO Ronald Shaich owns 15.6% of "A" common and 84.2% of "B" (11.1% voting rights); FMR LLC, 9.3% (8.1%). T. Rowe Price, 7.5% (6.5%); BlackRock, Inc., 5.3% (4.6%)/(4/3 proxy). Incorporated: Delaware. Address: 3630 S. Geyer Road, St. Louis, Missouri 63127. Tel: 314-341-2000. 2014 Annual Report at panerabread.com.

During the quarter, Panera Bread Company's results failed to live up to the high standards investors have come to expect. Although third-quarter adjusted earnings of $1.38 a share were a penny ahead of our target, the tally was up only 9% year to year (it has been since quarterly earnings failures came in at a double-digit pace). Moreover, the top line only rose 8% from a year earlier, versus our expectation of an 11% advance, and same-store sales growth was a modest 1.3%. Additionally, transactions fell 1% and the operating margin was flat, as lower SG&A expenses offset narrow bakery-cafe margins.

Results are liable to get worse before they get better. (Investors should note that the fourth quarter of 2013 contains an extra week relative to 2012.) The company clearly has issues to work out, given decelerating comps and falling transactions, and some key initiatives and investments needing to bear fruit. The main problem appears to be satisfying potential guests leaving and paying customers frustrated with slow service, in-store lines, and some heavy lifting and investments will pay off down the line, we have trimmed our near-term forecasts.

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