MONTANA MILLS BREAD CO INC
Form SB-2/A
June 24, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 24, 2002

REGISTRATION NO. 333-86956

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO. 2

TO

FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MONTANA MILLS BREAD CO., INC.
(Name of Small Business in Its Charter)

DELAWARE	5461	16-1551461
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2171 MONROE AVENUE, SUITE 205A
ROCHESTER, NEW YORK 14618
(585) 242-7540
(Address and Telephone Number of Principal Executive Offices)

EUGENE O'DONOVAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
2171 MONROE AVENUE, SUITE 205A
ROCHESTER, NEW YORK 14618
(585) 242-7540
(Name, Address and Telephone Number of Agent for Service)

COPIES OF ALL COMMUNICATIONS TO:

JAMES M. JENKINS, ESQ. DANIEL R. KINEL, ESQ. HARTER, SECREST & EMERY LLP 1600 BAUSCH & LOMB PLACE ROCHESTER, NEW YORK 14604-2711 585-232-6500 FAX: 585-232-2152	PETER M. ZIEMBA, GRAUBARD MILLE 600 THIRD AVEN NEW YORK, NEW YORK 10 212-818-8800 FAX: 212-818-88

Approximate date of commencement of proposed sale to the public: As soon as practicable following the date on which this Registration Statement becomes effective.

If any securities being offered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT WE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 24, 2002

PRELIMINARY PROSPECTUS

[MONTANA MILLS BREAD LOGO]

MONTANA MILLS BREAD CO., INC.

2,000,000 Shares of Common Stock
and
2,000,000 Redeemable Common Stock Purchase Warrants

This is our initial public offering of 2,000,000 shares of our common stock and 2,000,000 redeemable common stock purchase warrants. The offering price per share of our common stock is $5.00 and the purchase warrants are being offered at $.05 per purchase warrant.

Each purchase warrant will entitle you to purchase one share of our common stock for $7.58 during the period beginning 90 days after the date of this prospectus and ending on the fifth anniversary of the date of this prospectus. We may redeem the purchase warrants, with our underwriter's prior consent, at any time after they become exercisable, for $.01 per purchase warrant, on not less than 30 days' prior written notice if the last sale price of our common stock has been at least 200% of the then-current exercise price of the purchase warrants (initially $15.16) for the 20 consecutive trading days ending on the third day prior to the date on which notice is given.

Prior to this offering, there has been no public market for our securities and we cannot assure you that a market will develop. Our common stock and purchase warrants have been approved for listing on the American Stock Exchange under the symbols MMX and MMX.W.

INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. PLEASE SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 9 TO READ ABOUT RISKS YOU SHOULD CONSIDER CAREFULLY BEFORE BUYING OUR SECURITIES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	INITIAL PUBLIC OFFERING PRICE	UNDERWRITING DISCOUNT AND COMMISSIONS	PROCEEDS
Per share of common stock...........................	$ 5.00	$ 0.45	$
Per purchase warrant................................	$ 0.05	$ 0.005	$ 0
Total......................................	$10,100,000	$909,000	$9,191

Our underwriter has an option to purchase up to an additional 300,000 shares of our common stock and/or 300,000 purchase warrants to cover over allotments.

Our underwriter is offering our securities as set forth in the section entitled "Underwriting." Our underwriter expects to deliver our securities to purchasers on or about , 2002.

KIRLIN SECURITIES, INC.

The date of this prospectus is , 2002.

[MONTANA MILLS BREAD TRADEMARK]

[Photo of table set with a loaf of [Photo of loaves of bread,

bread on a cutting board, Montana Mills knife, coffee cake, scones, muffins, jam, juice and a Java Joe's coffee mug]

muffins, cookies and wheat]

[Montana Gold Wheat Trademark]

[Photo Suzy & Gene O'Donovan Montana Mills Bread Company]

[Montana Mills Bread Trademark]

Naturally Harvested
Milled Fresh Daily

Free Slices!
All The Time, Any Time.

[Photo of Gift Box containing loaves of bread, cookies, jam and Montana Mills knife]

[Photo of interior of village bread store counter with sales associate distributing free slice of bread]

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Montana Mills Bread (TM), Montana Gold(R), Flour Power (TM), Breader (TM), Breadit (SM) and montanamills.com (TM) are trademarks or servicemarks of ours. Java Joe's(R) is a registered trademark of Siempre Caffe, Inc. This prospectus also includes product names, trade names, trademarks and servicemarks of other companies.

PROSPECTUS SUMMARY

Before making a decision to purchase our securities, you should read this entire prospectus, including the audited consolidated financial statements and related notes and risk factors.

ABOUT US. We own and operate upscale "village bread stores" in the Northeastern and Midwestern United States that produce and sell a variety of baked goods and satellite cafes that sell the items we bake at our village bread stores. Our 28 village bread stores and satellite cafes are located primarily in suburban areas in New York, Ohio, Pennsylvania and Connecticut. We also own and operate one permanent and several seasonal kiosks located in shopping malls that also sell baked goods produced at our village bread stores.

We provide a special bakery experience through an open-view baking format and a broad selection of all natural, freshly baked specialty and basic breads, cookies, muffins and scones, our signature "Breader" sandwiches, and coffee and other beverages we sell under the Java Joe's brand name. We also sell gift baskets and boxes of our products and other retail items through our internet and catalog operations.

OUR CULTURE. Our operating philosophy is to:

- vertically integrate production on-site at our village bread stores, utilizing an open-view baking format that allows customers to watch and experience the entire baking process and emphasizes the freshness and quality of our baked goods;

- provide high quality, all-natural fresh bread and baked goods to customers at all of our locations; and

- offer a broad array of proprietary products.

OUR FOCUS. We differentiate Montana Mills from our competitors by:

- focusing predominantly on bread and other bakery items, which generated approximately 72% of our sales during our fiscal year ended January 30, 2002;

- baking all of our products fresh daily from scratch, using basic ingredients such as Montana spring wheat milled by us fresh each day;

- offering a menu of proprietary products consisting of more than 80 different breads and dozens of other products;

- providing superior customer service, including our policy to greet each customer with a free, fresh slice of bread the "size of Montana"; and

- continually updating our customer service initiatives to create a neighborhood and community feeling and build goodwill.

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OUR GROWTH STRATEGY. We intend to capitalize on our competitive advantages and a retail bread and bakery products market that we believe is expanding and build a widely recognized and respected brand name by:

- Further penetrating new and existing markets. We intend to open between 10 and 30 additional stores in existing and new markets in the 24-month period following the closing of the offering. Based on our average per-store opening cost of approximately $252,000 since inception (approximately $275,000 for stores opened in the last two fiscal years), we expect that the cost of opening each new store will be approximately $260,000. The number of new stores we open will depend in large part upon our ability to secure leases in attractive locations.

- Continuously improving the experience of our customers. We plan to continue to provide value to our customers by constantly expanding our product offerings and further improving our prompt, courteous service and pleasant customer-service oriented atmosphere.

- Further developing our catalog and internet programs. We intend to substantially grow our catalog and internet businesses to generate additional revenue and increase awareness of the Montana Mills brand name. We believe that we can use our catalog to direct customers to our website.

- Franchising and establishing relationships with other retailers. We intend to diversify our customer base and expand our operations into new geographic areas by franchising our stores. We also intend to explore opportunities to distribute our products through other retailers.

- Exploring acquisitions. Due to the fragmented nature of our industry, we believe a significant opportunity exists for consolidation. We intend to examine potential acquisition opportunities as they arise and will consider the acquisition of existing companies where we believe the potential exists for achieving economies of scale, increasing the recognition of the Montana Mills brand name or where we would receive another benefit.

Our growth strategy could be impeded if, among other things, we are unable to:

- hire and retain qualified management or other personnel;

- develop suitable additional locations or continue to lease our current locations;

- establish our products in new markets;

- manage our growth effectively, including the expansion of our management and information systems and our financial controls;

- develop and maintain the Montana Mills brand name;

- control our raw material or personnel expenses; or

- develop a successful franchise system, control the actions of our franchisees, or comply with applicable franchise laws;

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or if:

- our customers change their spending habits or become afraid to use the mail or other delivery services;

- any of our products become subject to adverse publicity or material litigation; or

- competitors are able to copy our baking or presentation methods.

THE OFFERING

SECURITIES OFFERED...........	2,000,000 shares of our common stock and 2,000,000 purchase warrants. Each purchase warrant will entitle you to purchase one share of our common stock for $7.58 during the period beginning 90 days after the date of this prospectus and ending on the fifth anniversary of the date of this prospectus. We may redeem the purchase warrants, with our underwriter's prior consent, at any time after they become exercisable, for $.01 per purchase warrant on not less than 30 days' prior written notice if the last sale price of our common stock is at least 200% of the then-current exercise price of the purchase warrants (initially $15.16) for the 20 consecutive trading days ending on the third day prior to the date on which such notice is given.
COMMON STOCK OUTSTANDING PRIOR TO THE OFFERING..............	5,830,385 shares
COMMON STOCK TO BE OUTSTANDING AFTER THE OFFERING.....................	7,830,385 shares
PURCHASE WARRANTS TO BE OUTSTANDING AFTER THE OFFERING.....................	2,000,000 purchase warrants
USE OF PROCEEDS..............	We estimate that we will receive approximately $8,248,000 in net proceeds after deducting commissions and offering expenses. We intend to use approximately $7,748,000 of the proceeds of the offering for working capital and general corporate purposes (including opening new stores and expanding our catalog and gift operations) and the remaining $500,000 to develop our franchise operations infrastructure.
AMERICAN STOCK EXCHANGE SYMBOLS......................	Common stock: MMX Purchase warrants: MMX.W

CORPORATE INFORMATION.........	We were founded as a New York corporation in 1996 and reincorporated as a Delaware corporation in 1998. Our principal executive offices are located at 2171 Monroe Avenue, Suite 205A, Rochester, New York 14618, and our telephone number is (585) 242-7540. Our web site address is www.montanamills.com. The information contained in our web site is not a part of this prospectus.
CERTAIN TERMS USED IN THIS PROSPECTUS....................	In this prospectus "common stock" refers to our common stock, par value $.001 per share, and "purchase warrants" refers to the redeemable common stock purchase warrants being sold in the offering. We refer to our common stock and purchase warrants as our "securities."

Except as set forth in the financial statements or as otherwise specifically stated, all information in this prospectus assumes:

- no exercise of the purchase warrants offered by us in the offering;

- no exercise of our underwriter's over-allotment option to purchase up to 300,000 shares of our common stock and/or 300,000 purchase warrants;

- no exercise of our underwriter's purchase option to purchase up to 200,000 shares of our common stock and/or 200,000 purchase warrants;

- no exercise of 500,000 shares of our common stock reserved for issuance under our 1998 stock option plan, of which 3,000 shares were subject to options granted as of May 1, 2002 at a weighted average exercise price of $10 per share;

- no exercise of 700,000 shares of our common stock issuable to Eugene O'Donovan, our president and chief executive officer, upon exercise of options granted to Mr. O'Donovan outside our 1998 stock option plan at an exercise price equal to the exercise price of the purchase option we will issue to our underwriter on the closing date of the offering;

- no exercise of outstanding warrants to purchase 148,062 shares of our common stock issued to two of our advisors in connection with previous financings, at a weighted average exercise price of $5.14 per share;

- that the holders of all of our outstanding shares of series A convertible preferred stock do not elect to receive accrued but unpaid dividends ($75,000 as of May 1, 2002) in shares of our common stock;

- that Cephas Capital Partners, L.P. does not convert its $2,000,000 convertible promissory note into 400,000 shares of our common stock at a conversion price equal to the offering price per share of our common stock;

- the issuance of 15,000 shares of our common stock and payment of $20,000 to Cephas Capital Partners in conjunction with the modification of its convertible promissory note to, among other things, lower the annual interest rate to 8%;

and reflects:

- a contribution to our capital of 575,204 shares of our common stock by Eugene O'Donovan and Susan O'Donovan, our executive vice president, on the effective date of the offering;

- the conversion of all of our outstanding shares of series A convertible preferred stock into 482,889 shares of our common stock at the closing of the offering, with 34,250 shares being converted into 37,689 shares of our common stock at a conversion price of $7.27 per share and 278,250 shares being converted into 445,200 shares of our common stock at a conversion price equal to the offering price per share of our common stock; and

- the conversion of all of our outstanding subordinated convertible debentures into 907,700 shares of our common stock on the effective date of the offering at a conversion price equal to the offering price per share of our common stock and a corresponding elimination of our interest expense associated with those debentures.

SUMMARY FINANCIAL INFORMATION

The following summary of our historical consolidated statements of operations and balance sheet data for the eleven-month fiscal year from February 28, 2000 through January 31, 2001 and for the year ended January 30, 2002 is derived from audited historical financial statements included elsewhere in this prospectus. The following summary of our historical consolidated statements of operations and balance sheet data for the 13 weeks ended May 2, 2001 and May 1, 2002 is unaudited. During our fiscal year ended January 31, 2001, we changed our fiscal year end from the Sunday closest to February 28 of each year to the Wednesday closest to January 31 of each year. You should be aware of the differences in these two fiscal years prior to making any comparisons.

The summary unaudited pro forma financial data give effect to the conversion of all of our outstanding series A convertible preferred stock and subordinated convertible debentures into shares of our common stock, the contribution to our capital by Eugene O'Donovan and Susan O'Donovan of a portion of our common stock owned by them, the issuance of 15,000 shares of our common stock to Cephas Capital Partners and the payment of $20,000 to Cephas Capital Partners in conjunction with the modification of its convertible promissory note to, among other things, lower the annual interest rate to 8%. The summary unaudited pro forma consolidated statements of operations data for our fiscal year ended January 30, 2002 and our fiscal quarter ended May 1, 2002 give effect to these transactions as if they occurred at the beginning of the fiscal year ended January 30, 2002. The summary unaudited pro forma consolidated balance sheet data as of May 1, 2002 give effect to these transactions as if they occurred on May 1, 2002. The summary unaudited pro forma financial data do not purport to represent what our results of operations or financial position would actually have been had these transactions, in fact, occurred on the assumed dates and are not necessarily indicative of our results of operations or financial position for any future periods.

You should read this information together with our consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	FISCAL YEAR ENDED			
	JANUARY 31, 2001	JANUARY 30, 2002		MAY 2, 2001
	ACTUAL	ACTUAL	PRO FORMA	ACTUAL
			(UNAUDITED)	(UNAUDITED)
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
Sales	$ 7,614,039	$10,812,453	$10,812,453	$2,000,920
Cost of goods sold (exclusive of depreciation and amortization)	3,498,069	5,386,722	5,386,722	991,244
Gross profit	4,115,970	5,425,731	5,425,731	1,009,676
Selling, general and administrative expenses	3,231,110	4,922,137	4,892,137	1,031,105
Pre-opening and grand-opening expenses	437,548	985,148	985,148	166,990
Depreciation and amortization	221,574	486,203	486,203	98,019
Income (loss) from operations	225,738	(967,757)	(937,757)	(286,438)
Interest income	235,420	155,470	155,470	72,961
Financing costs	(418,808)	(760,897)	(164,682)	(190,358)
Income (loss) before income taxes	42,350	(1,573,184)	(946,969)	(403,835)
Provision for (benefit from) income taxes	9,972	(615,480)	(363,846)	(157,250)
Net income (loss) (1)	$ 32,378	$ (957,704)	$ (583,123)	$ (246,585)
Series A convertible preferred stock dividends	$ (275,000)	$ (300,000)	$ -0-	$ (75,000)
Net loss applicable to common stockholders	$ (242,622)	$(1,257,704)	$ (583,123)	$ (321,585)
Basic and diluted loss per common share applicable to common				

stockholders......................	$ (.05)	$ (.25)	$ (.10)	$ (.06)
Weighted average common shares outstanding........................	5,000,000	5,000,000	5,830,385	5,000,000

	FISCAL YEAR ENDED		
	JANUARY 31, 2001	JANUARY 30, 2002	MA
	ACTUAL	ACTUAL	
OTHER DATA:			
Cash flows provided by (used in) operating activities...	$ 598,937	$ (973,406)	$
Cash flows provided by (used in) investing activities...	$(1,974,776)	$(4,248,352)	$
Cash flows provided by (used in) financing activities...	$ 5,682,743	$ (335,563)	$

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(1) The pro forma consolidated net income (loss) does not give effect to a non-recurring charge of approximately $275,000 at February 1, 2001 associated with the modification of the convertible promissory note held by Cephas Capital Partners to occur on or prior to the closing of the offering.

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The following table summarizes our balance sheet data as of January 30, 2002 and as of May 1, 2002.

The summary unaudited pro forma data give effect to:

- the conversion of all of our series A convertible preferred stock into 482,889 shares of our common stock at the closing of the offering, with 34,250 shares being converted into 37,689 shares of our common stock at a conversion price of $7.27 per share and 278,250 shares being converted into 445,200 shares of our common stock at a conversion price equal to the offering price per share of our common stock;

- the conversion of all of our outstanding subordinated convertible debentures into 907,700 shares of our common stock net of approximately $288,000 of unamortized bond issue costs on the effective date of the offering, at a conversion price equal to the offering price per share of our common stock;

- the issuance of 15,000 shares of our common stock and payment of $20,000 to Cephas Capital Partners in conjunction with the modification of its convertible promissory note to, among other things, lower the annual interest rate to 8%, and the resulting reduction of our total assets for deferred financing costs of approximately $127,000; and

- a contribution to our capital of 575,204 shares of our common stock by Eugene O'Donovan and Susan O'Donovan.

The summary unaudited pro forma as adjusted data give further effect to our receipt of net proceeds of $8,248,000 from the sale of our securities being offered pursuant to this prospectus.

	AS OF JANUARY 30, 2002	AS OF	
	ACTUAL	ACTUAL	P
		(UNAUDITED)	(U
CONSOLIDATED BALANCE SHEET DATA:			
Working capital..	$ 789,249	$ 145,150	$
Total assets...	$9,471,870	$ 9,456,936	$
Long-term debt, including current maturities................	$6,660,103	$ 6,658,869	$
Series A convertible preferred stock........................	$2,500,000	$ 2,500,000	$
Total common stockholders' (deficit) equity.................	$ (826,403)	$(1,128,836)	$
Outstanding common shares..................................	5,000,000	5,000,000	

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RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before you decide to invest in our securities. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may harm our business.

If any of the following events actually occur, our business could be seriously harmed. In such case, the value of your investment may decline and you may lose all or part of your investment. You should not invest in our securities unless you can afford the loss of your entire investment.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY UPON WHICH YOU MAY EVALUATE US AND WE HAVE EXPERIENCED LOSSES.

We began our operations in 1996 and your evaluation of us and our prospects will be based on our limited operating history. Consequently, our historical results of operations may not give you an accurate indication of our future results of operations or prospects. Additionally, in the last fiscal year, we experienced a net loss of $957,704, and in the 13-week period ended May 1, 2002, our net loss was $227,433. If we continue to incur a net loss, the value of your investment could decline significantly.

OUR GROWTH STRATEGY IS TO OPEN A SIGNIFICANT NUMBER OF NEW VILLAGE BREAD STORES AND SATELLITE CAFES IN OUR EXISTING MARKETS AND IN NEW MARKETS. IF WE ARE NOT ABLE TO ACHIEVE THIS PLANNED EXPANSION, OUR BUSINESS MAY SUFFER.

The success of our growth strategy and business will depend in large part on our ability to open new village bread stores and satellite cafes and to operate these locations profitably. We currently plan to open between 10 and 30 village bread stores and satellite cafes in the 24-month period following the closing of the offering. Based on our average per-store opening cost of approximately $252,000 since inception (approximately $275,000 for stores opened in the last two fiscal years), we expect that the cost of opening each new store will be approximately $260,000. The number of new stores we open will depend in large part upon our ability to secure leases in attractive locations. Since we will be spending a significant portion of our resources on pre-opening and grand-opening expenses and building our franchise operations infrastructure, we may not have net income for at least the next two years. If we are not able to achieve our expansion goals, we may not achieve profitability, our business may suffer and the value of your investment could decline significantly.

THE SUCCESS OF OUR PLANNED EXPANSION WILL DEPEND UPON NUMEROUS FACTORS, MANY OF WHICH ARE BEYOND OUR CONTROL.

Some of the factors that could affect our ability to expand our operations as planned include our ability to:

- hire, train and retain qualified operational and other personnel;
- identify, obtain and develop suitable village bread store and satellite cafe sites on favorable lease terms;
- establish our products in new markets;
- compete successfully in our existing markets; and
- manage growth in administrative overhead and distribution costs likely to result if our expansion occurs as planned.

Any inability to implement our business strategy could have a material adverse impact on our operating results.

Additionally, during our fiscal year ended February 27, 2000, we closed a village bread store because it did not generate sufficient revenues. The closing of additional stores could harm our business.

IF WE ARE NOT ABLE TO MANAGE OUR GROWTH EFFECTIVELY, OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED.

We have grown significantly since our inception and intend to grow substantially in the future. We have increased the number of our locations from one village bread store in June 1996 to 28 village bread stores and satellite cafes currently and we anticipate opening between 10 and 30 new village bread stores and satellite cafes in the 24-month period following the closing of the offering. Our existing management systems, financial and management controls and information systems may not be adequate to support our planned expansion. Our ability to manage our growth effectively will require us to continue to expend funds to improve these systems, procedures and controls, which we expect will increase our operating expenses and capital requirements. In addition, we must effectively expand, train and manage our work force. If we are not able to respond on a timely basis to all of the changing demands that our planned expansion will impose on our management and our existing systems, procedures and controls, we could lose opportunities or overextend our resources, which in turn could seriously harm our business.

COMPETITORS MAY BE ABLE TO COPY OUR BAKING AND PRESENTATION METHODS, WHICH MAY HARM OUR BUSINESS AND OUR ABILITY TO ESTABLISH THE MONTANA MILLS BRAND NAME.

We consider our baking and presentation methods, including our packaging and the design of the interior of our village bread stores and other locations, to be essential to the appeal of our products and brand. We have not applied to register all trademarks or trade dress in connection with these features, and therefore in some circumstances we may not be able to rely on the legal protections provided by trademark registration.

Additionally, because we do not hold any patents for our preparation methods or recipes or have registered trademarks for all of the intellectual property we utilize, it may be difficult for us to prevent competitors from copying our methods or recipes or duplicating our other intellectual property. If we do not receive registration for all trademarks for which we have applied or if our competitors copy our preparation or presentation methods or recipes, the value of the Montana Mills brand name may be diminished and our market share may decrease. In addition, our competitors may be able to develop food preparation and presentation methods or recipes that are more appealing to consumers than our methods. If any of these events occur, our business could be seriously harmed.

THE HIGH GEOGRAPHIC CONCENTRATION OF OUR STORES EXPOSES US TO GREATER RISK THAN IF WE WERE NOT SO CONCENTRATED.

We presently operate 21 village bread stores and satellite cafes in New York, three in Pennsylvania, three in Ohio and one in Connecticut. We also operate one permanent kiosk in a shopping mall in the Rochester, New York area. The concentration of our village bread stores and satellite cafes in limited geographic markets exposes us to a greater risk from regional economic downturns than would be the case if we were not so geographically concentrated.

IF WE FAIL TO FURTHER DEVELOP AND MAINTAIN THE MONTANA MILLS BRAND NAME, OUR BUSINESS COULD SUFFER.

We believe that maintaining and developing the Montana Mills brand name is critical to our success and that the importance of brand recognition may increase as a result of new or future competitors offering products similar to ours. If our brand-building strategy is unsuccessful, our business could be seriously harmed.

Our success in promoting and enhancing the Montana Mills brand will depend on our continued ability to provide customers with high-quality products and superior customer service. Consumers may not perceive our products as being of high quality or our customer service as superior. If they do not, the value of our brand name may be diminished, our ability to implement our business strategy may be adversely affected and our business may be seriously harmed.

NEW STORES MAY COMPETE WITH OUR EXISTING STORES.

The opening of additional village bread stores and satellite cafes in current markets could cause competition between our new and our existing village bread stores. Opening new village bread stores and satellite cafes may divert sales from existing village bread stores and satellite cafes, which would cause a decrease in same-store sales. This decrease could negatively affect the price of our securities.

IF WE FACE INCREASED COSTS OR LABOR SHORTAGES, OUR GROWTH AND OPERATING RESULTS MAY BE ADVERSELY AFFECTED.

Our growth and continued success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including village bread store and satellite cafe managers, bakers, customer service representatives and staff. Qualified persons to fill these positions are in short supply in the markets in which we operate. If a significant number of our current managers, bakers or other employees were to leave, our business operations could be seriously harmed. If we are unable to recruit and retain sufficient numbers of qualified employees, we may be unable to open new village bread stores or openings could be delayed.

Labor is a primary component in the cost of operating our business. As of May 1, 2002, we employed 42 salaried and 363 hourly employees. We expend significant resources in recruiting and training our employees. Employee turnover for the fiscal year ended January 30, 2002 was approximately 25% for salaried employees and 105% for hourly employees. If our turnover rates increase, labor costs increase because of increases in competition for employees, the federal minimum wage or employee benefits costs increase (including costs associated with health insurance coverage), or if our employees become unionized, our operating expenses will increase and our growth or results of operations may be adversely affected.

THE LOSS OF EUGENE O'DONOVAN OR SUSAN O'DONOVAN OR OUR INABILITY TO RETAIN OTHER SENIOR MANAGEMENT PERSONNEL COULD HARM OUR BUSINESS.

We are dependent to a large degree on the services of Eugene O'Donovan, our president and chief executive officer, and Susan O'Donovan, our executive vice president. Our operations may suffer if we were to lose either of their services. We do not maintain key person insurance on Mrs. O'Donovan.

In addition, competition for qualified management in our industry is intense. Many of the companies with which we compete for experienced management personnel have greater financial and other resources than we do. If we are not able to retain qualified management personnel or if a significant number of them were to leave our employ, our business could be harmed.

IF WE ARE UNABLE TO CONTINUE LEASING OUR CURRENT STORE LOCATIONS OR OBTAIN ACCEPTABLE LEASES FOR NEW LOCATIONS, OUR BUSINESS MAY SUFFER.

All of our village bread stores and satellite cafes are located on leased premises. If we are unable to renew any leases on acceptable terms, or if we are subject to substantial rent increases, our business could suffer. Because we compete with other retailers for retail sites, we may not be able to obtain new leases or renew existing leases on acceptable terms, or at all. If we are unable to renew or obtain leases, our costs could increase and our operating results could be harmed.

OUR OPERATING RESULTS MAY FLUCTUATE FROM QUARTER TO QUARTER, WHICH COULD CAUSE OUR STOCK PRICE TO FLUCTUATE.

Since our quarterly results of operations may fluctuate, our stock price may fluctuate as well. Our quarterly results of operations may be affected by, among other things, our timing in opening new stores, recognition of franchise fees and the fact that we may generate a larger portion of our revenues during the November and December holiday season. Our results of operations also could be affected by expenses associated with our expansion.

RISKS RELATED TO OUR INDUSTRY

CHANGES IN CONSUMER PREFERENCES OR DISCRETIONARY CONSUMER SPENDING COULD HARM OUR BUSINESS.

Our success depends in part upon the popularity of our bakery and other products and our ability to develop new items that appeal to consumers. Shifts in consumer preferences, our inability to develop new menu items that appeal to consumers, or changes in our menu that eliminate items popular with consumers could harm our business. Our success also depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could seriously harm our business.

OUR BUSINESS COULD BE HARMED BY LITIGATION OR PUBLICITY CONCERNING FOOD QUALITY, HEALTH OR OTHER ISSUES, WHICH MAY CAUSE CUSTOMERS TO AVOID OUR PRODUCTS AND RESULT IN LIABILITIES.

Our business is subject to litigation and complaints from customers or government authorities relating to food quality, illness, injury or other health concerns or operating issues. Litigation or complaints could diminish the value of the Montana Mills brand name by damaging our reputation. Even if adverse publicity about these allegations is not true, it could discourage customers from buying our products. Because we emphasize freshness and quality, adverse publicity relating to food quality or similar concerns may affect us more than it would bakeries that compete primarily on other factors. Adverse publicity also could divert the attention of our management from other business concerns. Additionally, we could incur significant liabilities if a lawsuit or other claim resulted in an adverse decision or in a settlement payment, and we would likely incur substantial litigation costs regardless of the outcome of any matter. It is possible that our product liability insurance coverage may be insufficient or may cease to be available on commercially reasonable terms, or at all.

COMPETITION IN OUR INDUSTRY IS FIERCE AND INCREASED COMPETITION FROM CURRENT OR FUTURE COMPETITORS COULD HARM OUR BUSINESS.

We compete with other local bakeries, grocery stores, and bread-only stores that supply fresh bread and other baked goods, and with other restaurants and other companies that may develop restaurants and bakeries that operate with similar or superior concepts to ours. Additionally, there are many well-established regional and national competitors and potential competitors that have substantially greater financial, marketing, personnel and other resources than we do and which may provide additional competition for us as we attempt to expand into other geographic locations. We also are subject to competition from and compete with various cafes and coffee shops in the sale of coffee beverages. If any of our current or potential competitors establish a concept similar to ours or begin to compete directly with our concept in any of our current or potential markets, our business could be seriously harmed.

IF CONSUMERS ARE AFRAID TO USE THE MAIL OR OTHER DELIVERY SERVICES, OUR CATALOG AND GIFT BUSINESSES WILL SUFFER.

As a result of the Anthrax-laced letters sent following the September 11, 2001 terrorist attacks in New York City and Washington, DC, we experienced a lower than anticipated increase in our revenues from catalog and gift sales. If consumers become afraid to use the mail or other delivery services as a result of chemical or biological terrorist actions, our catalog and gift businesses could be seriously harmed.

IF WE ARE UNABLE TO OBTAIN REGULATORY APPROVALS, OR COMPLY WITH ONGOING AND CHANGING REGULATORY REQUIREMENTS, OUR BUSINESS COULD BE HARMED.

All of our locations are subject to various local, state and federal governmental regulations, standards and other requirements for food storage, preparation facilities, food handling procedures, other goods manufacturing practices requirements and product labeling. We also are subject to license and permit requirements relating to health and safety, building and land use and environmental protection. If we encounter difficulties in obtaining any necessary licenses or permits or are unable to comply with ongoing and changing regulatory requirements:

- our opening of new village bread stores and satellite cafes could be delayed;

- our existing village bread stores and satellite cafes could be temporarily or permanently closed; or

- our product offerings could be limited.

The occurrence of any of these problems could seriously harm our business.

RISKS RELATED TO FRANCHISING

IF WE ARE UNABLE TO DEVELOP A SUCCESSFUL FRANCHISING SYSTEM, OUR GROWTH AND SUCCESS WILL BE IMPEDED.

Our current growth strategy calls for us to begin franchising our stores. Therefore, the continued growth of our business depends in part on the success of our franchising strategy. Local franchisees may not have access to the financial resources that they need to sustain the operations of their franchised stores. Also, franchisees may not be able to negotiate acceptable lease or purchase terms for store sites or obtain the necessary permits and approvals or meet construction schedules. Any of these problems could harm our brand name, slow our growth, impair our franchise and growth strategy and reduce our anticipated franchise revenues, which in turn could seriously harm our business.

WE MAY BE HARMED BY ACTIONS TAKEN BY OUR FRANCHISEES THAT ARE BEYOND OUR CONTROL.

Since our franchisees will operate as independent entities and will not be our employees, the quality of franchised store operations may be diminished by any number of factors beyond our control. For example, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. These shortcomings, if they occur, could harm our image and reputation and cause our franchise revenues to decline, which could seriously harm our business.

WE WILL BE SUBJECT TO FRANCHISE LAWS AND REGULATIONS. OUR ABILITY TO DEVELOP NEW FRANCHISED STORES MAY BE ADVERSELY AFFECTED BY THESE LAWS AND REGULATIONS, WHICH COULD ADVERSELY AFFECT OUR GROWTH STRATEGY.

As a franchisor, we will be subject to regulation by the United States Federal Trade Commission and state laws regulating the offer and sale of franchises. Our failure to obtain or maintain approvals to sell franchises would cause us to lose franchise revenues. If we are unable to sell new franchises, our growth strategy will be harmed and our business could suffer. In addition, state laws that regulate substantive aspects of our relationships with franchisees may limit our ability to terminate or otherwise resolve conflicts with our franchisees. Because part of our growth strategy is dependent on franchising, any impairment of our ability to develop new franchised stores could seriously harm our business.

RISKS RELATED TO THE OFFERING

THE PRICE OF OUR SECURITIES AFTER THE OFFERING COULD BE BELOW THE OFFERING PRICE.

The offering price of our securities was arbitrarily determined by negotiation between us and our underwriter and may not bear a direct relationship to our assets, earnings, book value, results of operations or any other objective standard. The price of our securities after the offering could be below the offering price.

WE HAVE BROAD DISCRETION AS TO THE USE OF THE NET PROCEEDS FROM THIS OFFERING AND WE MAY USE THE PROCEEDS OF THIS OFFERING IN A MANNER WHICH YOU MAY NOT APPROVE.

We have broad discretion as to the use of the net proceeds we will receive from the offering. We may not apply these funds effectively or in a manner which you would approve. Additionally, the net proceeds from the offering may not be invested in a manner that will yield a favorable return. If we do not utilize the net proceeds of the offering effectively, our business may be seriously harmed and the value of our securities may decrease.

OUR PRINCIPAL STOCKHOLDERS WILL CONTINUE TO HOLD A SUBSTANTIAL PORTION OF OUR STOCK AFTER THE OFFERING, WHICH MAY LEAD TO CONFLICTS WITH OTHER STOCKHOLDERS OVER CORPORATE GOVERNANCE.

Eugene O'Donovan and Susan O'Donovan together will control approximately 54% of our outstanding common stock after the offering. Mr. and Mrs. O'Donovan therefore will be able to significantly influence all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as mergers or other business combinations. This control means that purchasers of our securities being sold in the offering will not be able to effectively influence the manner in which we are governed and that a third party may be delayed or deterred from acquiring or merging with us, which could reduce the market price of our securities.

THERE MAY BE SUBSTANTIAL SALES OF OUR COMMON STOCK AFTER THE EXPIRATION OF LOCK-UP PERIODS, WHICH COULD CAUSE THE PRICE OF OUR STOCK TO FALL.

After the offering, 7,830,385 shares of our common stock will be outstanding. All of the shares of our common stock sold in the offering will be freely tradable, except for shares purchased by holders subject to lock-up agreements or by any of our existing "affiliates," as that term is defined in Rule 144 under the Securities Act, which generally includes officers, directors or 10% stockholders. Of the 7,830,385 shares of our common stock to be outstanding on the closing date of the offering, 5,792,696 shares will be restricted as a result of securities laws and lock-up agreements that holders have signed that restrict their ability to transfer our stock for either 13 or 24 months after the date of this prospectus. Of our outstanding restricted shares, 1,463,310 will be available for sale in the public market 13 months after the date of this prospectus, and 4,329,386 will be available for sale in the public market 24 months after the date of this prospectus. The remaining 37,689 shares will have no lock-up period and will be freely tradeable. Our underwriter may in its sole discretion, however, waive or permit us to waive the lock-up at any time for any stockholder. Sales of a substantial number of shares of our common stock could cause the price of our securities to fall. Additionally, these sales also could impair our ability to raise capital by selling additional securities.

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OUR STOCK PRICE MAY BE VOLATILE BECAUSE OF FACTORS BEYOND OUR CONTROL. AS A RESULT, YOU MAY LOSE ALL OR A PART OF YOUR INVESTMENT.

Our securities have not previously been publicly traded. Following the offering, the market price of our securities may decline substantially. In addition, the market price of our securities may fluctuate significantly in response to a number of factors, many of which are beyond our control, including:

- our ability to obtain securities analyst coverage;

- changes in securities analysts' recommendations or estimates of our financial performance;

- changes in market valuations of companies similar to us; and

- announcements by us or our competitors of significant contracts, new offerings, acquisitions, commercial relationships, joint ventures or capital commitments.

Furthermore, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. A securities class action lawsuit against us, regardless of its merit, could result in substantial costs and divert the attention of our management from other business concerns, which in turn could harm our business.

THE OFFERING IS RELATIVELY SMALL IN SIZE, WHICH COULD ADVERSELY AFFECT THE MARKET PRICE OR TRADING VOLUME OF OUR SECURITIES.

An active public market for our securities may not develop or be sustained after the offering. Only 2,000,000 shares of our common stock will be issued as part of the offering (an additional 300,000 shares of our common stock will be issued if our underwriter's over-allotment option is exercised in full) and the offering is led by only one underwriter. These factors may prevent us from obtaining much, if any, research coverage from market analysts after the offering as might otherwise be obtained for an offering of greater size or for one managed by several underwriters. The small size of the offering may adversely affect the trading volume of our securities. As a result, you may be unable to sell the securities you purchase in the offering at or above the initial public offering price and the value of your securities could decline significantly.

OUR ABILITY TO ISSUE PREFERRED STOCK MAY PREVENT A CHANGE IN CONTROL OF US EVEN IF SUCH CHANGE OF CONTROL WOULD RESULT IN AN INCREASE IN OUR STOCK PRICE.

We are authorized to issue up to 687,500 shares of preferred stock. These shares may be issued in one or more series and our board of directors may determine the terms of any shares of newly issued preferred stock at the time of issuance, without further stockholder action. These terms may include voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. Any issuance of our preferred stock, depending upon the rights, preferences and designations of these shares, may delay, deter or prevent a change in control of us, or could result in the dilution of

the voting power of any of our common stock you purchase in the offering. In addition, certain "anti-takeover" provisions of Delaware law, among other things, may restrict the ability of our stockholders to effect a merger or business combination or to obtain control of us.

INVESTORS IN THE OFFERING WILL SUFFER IMMEDIATE AND SUBSTANTIAL DILUTION.

The public offering price of $5.00 per share of our common stock is substantially higher than the pro forma net tangible book value per share of our outstanding common stock immediately after the offering. Accordingly, if you purchase our common stock in the offering, you will experience immediate and substantial dilution of approximately $3.32 per share, or approximately 66% of the assumed offering price. See "Dilution" for a more detailed description of the dilution you will experience if you purchase our common stock in the offering.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus are forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by our use of words such as "may," "will," "could," "should," "project," "believe," "anticipate," "expect," "plan," "estimate," "forecast," "potential," "intend," "continue" or the negative or other variations of these words and other similar words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance, achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others, those discussed in more detail under the heading "Risk Factors" and elsewhere in this prospectus.

Our forward-looking statements are based on our current expectations, intentions and beliefs as of the date of this prospectus. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. You should not place undue reliance on our forward-looking statements.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $8,248,000 from the sale of the 2,000,000 shares of common stock and 2,000,000 purchase warrants being offered by us, at an initial public offering price of $5.00 per share and $.05 per warrant, after deducting $1,212,000 for underwriting discounts and commissions and our underwriter's non-accountable expense allowance and estimated expenses of approximately $640,000. If our underwriter exercises its over-allotment option in full, we will receive an additional $1,333,200 from the sale of an additional 300,000 shares of our common stock and 300,000 purchase warrants, after deducting $181,800 for underwriting discounts and commissions and our underwriter's non-accountable expense allowance.

The following table describes the expected allocation of the net proceeds of the offering, assuming that our underwriter does not exercise its over-allotment option:

	APPLICATION OF NET PROCEEDS	PERCENTAGE O NET PROCEEDS
Working capital and general corporate purposes (including opening new stores and expanding our catalog and gift operations)...	$7,748,000	93.9%
Developing our franchise operations infrastructure..........	500,000	6.1
Total..	$8,248,000	100.0%

We believe that the net proceeds of the offering will be sufficient to fund the opening of between 10 and 30 new stores. We will have significant discretion in the use of the net proceeds of the offering. Investors will be relying on the judgment of our management regarding the application of the proceeds of the offering.

Until we use the net proceeds as discussed above, we intend to invest the net proceeds from the offering in short term direct obligations of the United States or Federal agencies, in each case with maturities of less than one year, short term certificates of deposit or other time deposits with banks or corporate bonds with a Moody's or Standard & Poor's investment grade rating. We expect that the proceeds from the offering will provide us with sufficient capital for at least the next 18 months.

DIVIDEND POLICY

Other than $1,070,490 in cumulative cash dividends which we have paid to the holders of our series A convertible preferred stock through May 1, 2002, we never have declared or paid any dividends on our capital stock. At or prior to the closing of this offering, all of our issued and outstanding shares of series A convertible preferred stock automatically will convert into shares of our common stock and no additional dividends will accrue on these shares. Additionally, the agreements executed in connection with the $2,000,000 convertible promissory note originally issued in 2000 to Cephas Capital Partners restrict our ability to pay dividends on our capital stock as long as this note is outstanding. Even if this restriction on the payment by us of dividends were removed, we would intend to retain any future earnings we may have for future growth. We do not anticipate paying any other cash dividends in the foreseeable future.

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CAPITALIZATION

The table below sets forth our capitalization:

- on actual basis as of May 1, 2002;

- on an unaudited pro forma basis reflecting: (i) the conversion of all of our outstanding shares of series A convertible preferred stock and outstanding subordinated convertible debentures into shares of our common stock; (ii) the contribution to our capital by Eugene O'Donovan and Susan O'Donovan of a portion of our common stock owned by them; (iii) the issuance of 15,000 shares of our common stock to Cephas Capital Partners; and (iv) unamortized bond issue costs recorded on our balance sheet that will be written off against common stockholders' equity upon the conversion of our outstanding subordinated convertible debentures; and

- on an unaudited pro forma as adjusted basis, giving effect to the sale of the 2,000,000 shares of common stock and 2,000,000 purchase warrants being offered by us, net of offering expenses.

	MAY 1, 2002		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Long-term debt, net of current portion.................	$6,626,020	$2,087,520	$ 2,087,520
Series A convertible preferred stock -- $.001 par value; actual -- 1,000,000 shares authorized, 312,500 shares issued and outstanding; pro forma and pro forma as adjusted -- 687,500 shares authorized, -0- shares issued and outstanding..............................	2,500,000	-0-	-0-
Common stockholders' equity (deficit):			
Common stock -- $.001 par value; 15,000,000 shares authorized; actual -- 5,000,000 shares issued and outstanding; pro forma -- 5,830,385 shares issued and outstanding; pro forma as adjusted -- 7,830,385 shares issued and outstanding..............................	5,000	5,830	7,830
Additional paid-in capital.............................	-0-	6,824,664	15,070,664
Accumulated deficit....................................	(1,133,836)	(1,355,752)	(1,355,752

Total common stockholders' equity (deficit)............	(1,128,836)	5,474,742	13,722,742
Total capitalization..................................	$7,997,184	$7,562,262	$15,810,262

DILUTION

When you purchase a share of our common stock, you will suffer immediate per share "dilution" in an amount equal to the difference between the price you paid per share and the net tangible book value per share after the offering. Net tangible book value per share represents the amount of our tangible assets less the amount of our liabilities divided by the number of shares of our common stock outstanding.

As of May 1, 2002, our net tangible book value available to our common stockholders was $(2,123,508), or $(0.42) per share of our common stock. Our net

tangible book value per share is based upon 5,000,000 shares outstanding as of May 1, 2002.

As of May 1, 2002, our pro forma net tangible book value would have been $4,894,992, or $0.84 per share of common stock. Our pro forma net tangible book value gives effect to the conversion of all of our outstanding series A convertible preferred stock into 482,889 shares of our common stock, the conversion of all of our outstanding subordinated convertible debentures into 907,700 shares of our common stock and the contribution of an aggregate of 575,204 shares of our common stock to our capital by Eugene O'Donovan, our president and chief executive officer, and Susan O'Donovan, our executive vice president, and the issuance of 15,000 shares of our common stock and payment of $20,000 to Cephas Capital Partners. Our pro forma net tangible book value per share is based upon 5,830,385 shares of our common stock outstanding.

Giving effect to the issuance of 2,000,000 shares of common stock and 2,000,000 purchase warrants offered by us at an initial public offering price of $5.00 per share and $.05 per purchase warrant (after the deduction of estimated underwriting discounts and offering expenses payable by us), our net tangible book value on a pro forma as adjusted basis, as of May 1, 2002, would have been $13,142,992, or $1.68 per share. This represents an immediate increase in net tangible book value of $0.84 per share to our existing stockholders and an immediate dilution of $3.32 per share to investors in the offering.

The following table illustrates this dilution per share of common stock as of the closing of the offering in an adjusted pro forma net tangible book value basis:

Initial public offering price per share....................		$5.00
Net tangible book value per share available to common stockholders as of May 1, 2002........................	$(0.42)	

Increase attributable to pro forma adjustments before offering	$ 1.26	
Pro forma net tangible book value per share before offering	$ 0.84	
Increase per share attributable to new investors in the offering	$ 0.84	
Pro forma net tangible book value per share after the offering		$1.68
Dilution per share to new investors in the offering		$3.32

The following table shows the number of shares of our common stock to be owned following the offering by existing securityholders and the new investors in the offering:

	SHARES PURCHASED		TOTAL CONSIDERATION	
	NUMBER	PERCENT	AMOUNT	PERCENT
Existing securityholders	5,830,385	74.46%	$ 7,118,500	41.58%
New investors	2,000,000	25.54%	10,000,000	58.42%
Total	7,830,385	100.00%	$17,118,500	100.00%

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with the financial statements and the accompanying notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in those forward-looking statements as a result of certain factors including, but not limited to, those described under "Risk Factors" and included in the other portions of the prospectus.

OVERVIEW

In 1998, we raised approximately $2,500,000 through a private placement of our series A convertible preferred stock. Through our operating cash flow and proceeds from this private placement, we began the further development of our core Rochester, New York market and began expanding into additional adjoining markets. Accordingly, we opened one village bread store in the Rochester, New York market, two village bread stores in the Buffalo, New York market and one village bread store in the Syracuse, New York market in the fiscal year ended February 27, 2000.

In 2000, we raised approximately $6,538,500 through the private placement of approximately $4,538,500 of subordinated convertible debentures and a $2,000,000 convertible subordinated promissory note made in favor of Cephas Capital Partners, L.P., a small business investment company. We used the net proceeds of this private placement to continue our growth plan. In our eleven month fiscal year February 28, 2000 through January 31, 2001, we opened two village bread stores in the Albany, New York market, three satellite cafes in the Rochester market, one satellite cafe in the Buffalo market and one additional village bread store in the Syracuse market. In our fiscal year ended January 30, 2002, we opened one village bread store in the Elmira, New York market, one village bread store in the Binghamton, New York market and two additional satellite cafes in the Rochester market. Upon completion of the initial development of our concept in upstate New York's largest cities, we conducted demographic surveys of potential new markets in Pittsburgh, Pennsylvania, where we opened one village bread store in April 2001, Columbus, Ohio, where we opened two village bread stores and one satellite cafe in August through September 2001, and several other cities in late fiscal 2002, including Hartford, Connecticut, where we opened one village bread store and Scranton and Erie, Pennsylvania, where we opened two village bread stores. We intend to continue to target regional cities in the Northeastern and Midwestern United States to build our brand name before we consider entering major urban markets. As of May 1, 2002, we operated 28 permanent locations, including 20 village bread stores and eight satellite cafes. We also operate one year-round kiosk in a shopping mall in the Rochester, New York market and expect to operate between four and ten seasonal kiosks during the 2002 November and December holiday season throughout our core markets.

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You should read the following selected financial data in conjunction with "Results of operations" and "Liquidity and capital resources" below, the consolidated financial statements and accompanying notes and the other financial data included elsewhere in this prospectus.

The following table shows our selected financial data. The selected historical statements of operations data for each of the fiscal years ended have been derived from our audited consolidated financial statements, which are included in this prospectus. The selected historical statements of operations data for each of the 13-week periods have not been audited. This quarterly information has been prepared on a basis consistent with our audited financial statements and has been derived from unaudited interim financial statements included in this prospectus and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our quarterly operating results may fluctuate significantly as a result of a variety of factors, and operating results for any quarter are not necessarily indicative of results for a full fiscal year. Historically, we have experienced seasonal variability in our quarterly operating results, with higher profits per store in the fourth quarter. The seasonal nature of our operating results is expected to continue.

	FOR THE FISCAL YEAR FEBRUARY 28, 2000 THROUGH JANUARY 31, 2001	FOR THE FISCAL YEAR ENDED JANUARY 30, 2002	13 WEEKS ENDED MAY 2, 2001	13 W EN MAY 1

			(UNAUDITED)	(UNAU
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
Sales................................	$7,614,039	$10,812,453	$2,000,920	$3,07
Cost of goods sold (exclusive of depreciation and amortization)......	3,498,069	5,386,722	991,244	1,63
Gross profit.........................	4,115,970	5,425,731	1,009,676	1,44
Selling, general and administrative expenses...........................	3,231,110	4,922,137	1,031,105	1,39
Pre-opening and grand-opening expenses...........................	437,548	985,148	166,990	7
Depreciation and amortization.........	221,574	486,203	98,019	15
Income (loss) from operations.........	225,738	(967,757)	(286,438)	(18
Interest income......................	235,420	155,470	72,961	
Financing costs......................	(418,808)	(760,897)	(190,358)	(18
Income (loss) before income taxes.....	42,350	(1,573,184)	(403,835)	(37
Provision for (benefit from) income taxes..............................	9,972	(615,480)	(157,250)	(14
Net income (loss)....................	$ 32,378	$ (957,704)	$ (246,585)	$ (22

RESULTS OF OPERATIONS

The following historical financial data, discussion and analysis for the two most recent fiscal years are derived from our audited consolidated financial statements for our fiscal year ended January 30, 2002, which we refer to as "fiscal 2002," and our fiscal year February 28, 2000 through January 31, 2001, which we refer to as "fiscal 2001".

The data should be read in conjunction with the audited consolidated financial statements and related notes included in this prospectus.

FISCAL YEAR ENDED JANUARY 30, 2002 COMPARED TO THE FISCAL YEAR FEBRUARY 28, 2000 THROUGH JANUARY 31, 2001

During our fiscal year ended January 31, 2001, we changed our fiscal year-end from the Sunday closest to February 28 of each year to the Wednesday closest to January 31 of each year. Our fiscal 2001 consists of the eleven-month period from February 28, 2000 through January 31, 2001. Accordingly, the following comparison for fiscal 2002 versus fiscal 2001 compares a twelve-month period to an eleven-month period. This unequal comparison affects each of the categories discussed below.

SALES. Sales for fiscal 2002 were $10,812,453, a 42% increase from fiscal 2001 sales of $7,614,039. This increase was primarily attributable to approximately $2,041,000 of additional sales from eleven new stores opened primarily in the last half of fiscal 2002, an increase in sales of approximately $1,032,000 from seven stores open a full year in fiscal 2002 compared to a partial year in fiscal 2001, and a comparison of twelve months in fiscal 2002 with eleven months in fiscal 2001 offset by a 4% decline in comparable store sales as a result of the cannibalization effect of new store additions in existing markets and general economic conditions. Sales also increased as a result of the associated benefits from newly introduced products, including sandwiches and coffee, which accounted for 14% of sales in fiscal 2002. Total sales in established markets (markets with stores opened in fiscal 2001 or prior) increased 19% in fiscal 2002 compared to the previous year.

COST OF GOODS SOLD (EXCLUSIVE OF DEPRECIATION AND AMORTIZATION). Cost of goods sold and occupancy costs were $5,386,722 in fiscal 2002, a 54% increase from $3,498,069 in fiscal 2001. Approximately $1,136,000 of this increase was due to the addition of eleven new stores, and approximately $603,000 of this increase was due to the full-year costs related to seven stores open for a full year in fiscal 2002 compared to a partial year in fiscal 2001. Cost of goods sold and occupancy costs increased as a percentage of sales to 50% in fiscal 2002 from 46% in fiscal 2001 primarily as a result of increased labor costs in existing and new markets and increased product costs related to new product offerings, including coffee, sandwiches, and other specialty bakery items which in fiscal 2002 had a lower margin than our historical bakery products. Increased labor costs in existing and new markets and increased product costs related to new product offerings contributed to cost of goods sold and occupancy costs on an equal basis.

GROSS PROFIT. Gross profit was $5,425,731 in fiscal 2002, a 32% increase from $4,115,970 in fiscal 2001. Gross profit as a percentage of sales decreased to 50% in fiscal 2002 from 54% in fiscal 2001 primarily as a result of increases in cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $4,922,137 in fiscal 2002 (or 46% of sales), a 52% increase from $3,231,110 in fiscal 2001 (or 42% of sales). Store selling expenses were $3,269,458 in fiscal 2002 (or 30% of sales), a 57% increase from $2,078,948 in fiscal 2001 (or 27% of sales). Approximately $637,000 of this increase was due to the addition of eleven new

stores, and approximately $412,000 of this increase was due to the full-year expenses related to seven stores open for a full year in fiscal 2002 compared to a partial year in fiscal 2001. Corporate general and administrative expenses increased to $1,652,679 in fiscal 2002, a 43% increase from $1,152,162 for fiscal 2001. The increase in general and administrative expenses was primarily due to increases for corporate infrastructure including corporate office personnel to support new store expansion and the effect of comparing a twelve-month period in fiscal 2002 to eleven months for the previous period.

PRE-OPENING AND GRAND-OPENING EXPENSES. Pre-opening and grand-opening expenses increased to $985,148 in fiscal 2002 from $437,548 for fiscal 2001, an increase of 125%. The increase was primarily a result of the addition of construction, administrative and training personnel to support the addition of new stores in fiscal 2002 and current expenditures for future store development, consisting primarily of site selection and lease negotiation fees. In addition, we incurred increased costs as we expanded into Ohio, Connecticut and Pennsylvania.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased to $486,203 in fiscal 2002 from $221,574 for fiscal 2001, an increase of 119%. The increase in depreciation and amortization was due to the effect of comparing a twelve-month period in fiscal 2002 to approximately eleven months for the previous period, and capital additions associated with existing and new store expansion.

FINANCING COSTS, NET OF INTEREST INCOME. Interest payments increased to $630,964 in fiscal 2002 from $347,484 in fiscal 2001, an increase of 82%. The increase resulted from a full year of interest payments for fiscal 2002 compared to a partial year of interest payments for the previous period on our subordinated convertible debentures issued in fiscal 2001. Interest income decreased to $155,470 in fiscal 2002 from $235,420 in fiscal 2001, a decrease of 34%. The decrease resulted from lower interest rates and reduced cash and cash equivalent balances, partially offset by an increase due to the effect of comparing a twelve-month period in fiscal 2002 to eleven months for the previous period. Amortization of bond issue costs increased to $129,933 in fiscal 2002 from $71,324 in fiscal 2001, an increase of 82%. The increase resulted from a full year of bond issue costs amortization for fiscal 2002 compared to a partial year of bond issue costs amortization for the previous period on subordinated convertible debentures and warrants issued in fiscal 2001.

PROVISION FOR (BENEFIT FROM) INCOME TAXES. The provision for (benefit from) income taxes is based on the effective tax rate applied to the respective fiscal years' pre-tax income. In fiscal 2002, the benefit from income taxes was $615,480, representing a 39% effective tax rate, compared to a provision for income taxes for fiscal 2001 of $9,972, representing a 24% effective tax rate. The change primarily resulted from an increase in the loss before income taxes to $1,573,184 in fiscal 2002 from income before income taxes of $42,350 in fiscal 2001.

13 WEEKS ENDED MAY 1, 2002 COMPARED TO 13 WEEKS ENDED MAY 2, 2001

The selected historical statements of operations data for each of the 13-week periods have not been audited. This quarterly information has been prepared on a basis

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consistent with our audited financial statements and has been derived from unaudited interim financial statements included in this prospectus and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our quarterly operating results may fluctuate significantly as a result of a variety of factors, and operating results for any quarter are not necessarily indicative of results for a full fiscal year. Historically, we have experienced seasonal variability in our quarterly operating results, with higher profits per store in the fourth quarter. The seasonal nature of our operating results is expected to continue.

SALES. Sales for quarter ended May 1, 2002 were $3,072,688, a 54% increase from sales of $2,000,920 in the quarter ended May 2, 2001. This increase was primarily attributable to approximately $1,138,000 of additional sales from eleven stores opened after the quarter ended May 2, 2001, offset by a 3.5% decline in comparable store sales as a result of the cannibalization effect of new store additions in existing markets and general economic conditions. Total sales in established markets (markets with stores opened prior to the quarter ended May 2, 2001) increased 7% in the quarter ended May 1, 2002 compared to the previous period.

COST OF GOODS SOLD (EXCLUSIVE OF DEPRECIATION AND AMORTIZATION). Cost of goods sold and occupancy costs were $1,630,114 for the quarter ended May 1, 2002, a 64% increase from $991,244 for the quarter ended May 2, 2001. Approximately $645,000 of this increase was due to the additional costs from eleven new stores opened after the quarter ended May 2, 2001. Cost of goods sold and occupancy costs increased as a percentage of sales to 53% for the quarter ended May 1, 2002 from 50% for the quarter ended May 2, 2001 as a result of increased labor costs in existing and new markets and increased product costs related to new product offerings, including coffee, sandwiches, and other specialty bakery items which for the quarter ended May 1, 2002 had a lower margin than our historical bakery products. Increased labor costs in existing and new markets and increased product offerings contributed to cost of goods sold and occupancy costs on an equal basis.

GROSS PROFIT. Gross profit was $1,442,574 for the quarter ended May 1, 2002, a 43% increase from $1,009,676 for the quarter ended May 2, 2001. Gross profit as a percentage of sales decreased to 47% for the quarter ended May 1, 2002, from 50% for the quarter ended May 2, 2001 as a result of increases in cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $1,395,222 for the quarter ended May 1, 2002 (or 45% of sales), a 35% increase from $1,031,105 for the quarter ended May 2, 2001 (or 52% of sales). Store selling expenses were $1,007,812 for the quarter ended May 1, 2002 (or 33% of sales), a 54% increase from $656,154 for the quarter ended May 2, 2001 (or 33% of sales). The increase was primarily attributable to approximately $400,000 of additional costs from eleven new stores opened after the quarter ended May 2, 2001. Corporate general and administrative expenses increased to $387,410 (or 13% of sales) for the quarter ended May 1, 2002, a 3% increase from $374,951 (or 19% of sales) for the quarter ended May 2, 2001. The decrease in general and administrative expenses to 13%

of sales resulted from efficiencies in our corporate infrastructure (i.e., we achieved increases in total sales without any additional corporate expenditures).

PRE-OPENING AND GRAND-OPENING EXPENSES. Pre-opening and grand-opening expenses decreased to $77,580 for the quarter ended May 1, 2002 from $166,990 for the quarter ended May 2, 2001, a decrease of 54%. The decrease was primarily a result of the reduction in discretionary administrative and training personnel expenditures to support the addition of new stores in fiscal 2003 and a decline in current expenditures for future store development, consisting primarily of site selection and lease negotiation fees.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased to $159,610 (or 5% of sales) for the quarter ended May 1, 2002 from $98,019 (or 5% of sales) for the quarter ended May 2, 2001, an increase of 63%. The increase in depreciation and amortization was primarily attributable to capital additions associated with existing and new store expansion.

FINANCING COSTS, NET OF INTEREST INCOME. Interest payments were $157,511 for the quarter ended May 1, 2002 and $157,875 for the quarter ended May 2, 2001. Interest payments primarily relate to interest payments on our subordinated convertible debentures issued in fiscal 2001. Interest income decreased to $4,974 for the quarter ended May 1, 2002 from $72,961 for the quarter ended May 2, 2001, a decrease of 93%. The decrease resulted primarily from reduced cash and cash equivalent balances. Amortization of bond issue costs for the issuance of subordinated convertible debentures and warrants issued in fiscal 2001 was $32,483 for each of the quarters ended May 1, 2002 and May 2, 2001.

PROVISION FOR (BENEFIT FROM) INCOME TAXES. The provision for (benefit from) income taxes is based on the effective tax rate applied to the respective quarters' pre-tax income. For the quarter ended May 1, 2002, the benefit from income taxes was $147,425, compared to the benefit from income taxes for the quarter ended May 2, 2001 of $157,250, both representing a 39% effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

13 WEEKS ENDED MAY 1, 2002. Net cash used in operating activities was $118,918 for the 13-week period ended May 1, 2002 and net cash used in operating activities was $294,855 for the 13-week period ended May 2, 2001. The increase in cash flows was primarily a result of the timing of the payment of expenditures, including interest payments incurred but not paid subsequent to May 1, 2002.

Net cash provided by investing activities was $124,106 for the 13-week period ended May 1, 2002 and net cash used in investing activities was $856,297 for the 13-week period ended May 2, 2001. The change resulted primarily from a decrease in capital expenditures.

Net cash used in financing activities was $94,240 for the 13-week period ended May 1, 2002 primarily representing payments for the proposed offering. Net cash used in financing activities was $83,756 for the 13-week period ended May 2, 2001 primarily representing payments for dividends to our series A convertible preferred stockholders.

FISCAL YEAR ENDED JANUARY 30, 2002. Net cash used in operating activities was $973,406 for fiscal 2002 and net cash provided by operating activities was $598,937 for fiscal 2001. The change resulted primarily from a decrease in gross profit, and increases in corporate general and administrative expenses, pre-opening and grand-opening expenses and interest payments on convertible debentures.

Net cash used in investing activities was $4,248,352 in fiscal 2002 and $1,974,776 in fiscal 2001. Investing activities primarily consisted of capital expenditures for property, plant and equipment related to new store expansion, the purchase of a trademark and a net investment of excess cash of $518,258 in short-term money funds.

Net cash used in financing activities was $335,563 in fiscal 2002 and net cash provided by financing activities was $5,682,743 for fiscal 2001. Financing activities in fiscal 2002 consisted primarily of the payment of $300,000 in dividends to our series A convertible preferred stockholders. Financing activities for fiscal 2001 consisted primarily of $5,983,838 in net proceeds from the issuance of subordinated convertible debentures and the Cephas Capital Partners convertible promissory note offset by the payment of $275,000 in dividends to our series A convertible preferred stockholders.

Since our formation, we have funded our liquidity needs generally through a combination of operating cash and external capital. In 1998, we raised approximately $2,500,000 through a private placement of our series A convertible preferred stock, which will convert into shares of our common stock automatically at the closing of the offering. Our series A convertible preferred stock accrues a 12% annual dividend (or $0.96 per year per share) payable at the discretion of our board of directors. Dividends accrue and are payable when and if declared and all unpaid dividends (approximately $75,000 at May 1, 2002) will be paid at the closing of the offering. In 2000, we raised $6,538,500 through a private placement of $4,538,500 of subordinated convertible debentures and a $2,000,000 convertible promissory note made in favor of Cephas Capital Partners. The subordinated convertible debentures bear interest at an average rate of 8.5%, depending upon the amount of principal invested, and interest is payable monthly or quarterly, at our option. At or prior to the closing date of the offering, the convertible promissory note will become subject to a lockup of thirteen months, will bear interest at 8% per year (it currently bears interest at 12% per year) and will be collateralized by all of our assets. However, Cephas Capital Partners has agreed to subordinate its security interest to a senior lender if we secure a senior finance facility. Of the $6,538,500 we have in outstanding debt securities, the $4,538,500 in principal face value of subordinated convertible debentures will automatically convert into shares of our common stock on the effective date of the offering. The $2,000,000 convertible promissory note is convertible into shares of our common stock at the price per share at which our common stock is sold to the public pursuant to this prospectus.

The proceeds from these private placements were used to assist us in our expansion into new and existing markets, build corporate infrastructure and for general working capital purposes.

During fiscal 2002, we made an aggregate of $926,282 in dividend and interest payments to our series A convertible preferred stockholders, Cephas Capital Partners and

our subordinated convertible debentureholders. In an effort to conserve our current cash during the first quarter of fiscal year ending January 29, 2003, we notified our series A convertible preferred stockholders that dividends would no longer be declared and paid but that dividends would accrue pending the effective date of the offering. We also notified our subordinated convertible debentureholders that under the terms of the debentures we switched from monthly to quarterly interest payments.

As of May 1, 2002, we had approximately $500,000 in cash and cash equivalents and short-term investments and approximately $269,000 in current income tax receivables. We are exploring alternative methods of financing, including equipment lease financing and short-term bank financing.

We expect to open between two and ten stores in our fiscal year ending January 29, 2003 at a projected cost of $260,000 per store.

We believe proceeds from the offering will provide us with sufficient capital for at least the next 18 months.

If we do not receive the proceeds from the offering, we believe we will have sufficient resources to meet our current operating needs for our fiscal year ending January 29, 2003.

SEASONALITY AND GENERAL ECONOMIC TRENDS. For stores open before the end of fiscal 2001, including our internet and gift businesses, the November and December holiday season accounted for approximately 23% of our total revenues in our fiscal year ended January 30, 2002. In order to obtain higher revenues during the November and December holiday season, we must incur additional expenses associated with the hiring and supervising of seasonal personnel as well as costs associated with increased advertising. We expect this seasonal trend to continue.

We also anticipate that our business will be affected by general trends that affect retailers. We do not believe that we have operated during a period of high inflation. Based on our experience, we expect to be able to pass on increased costs resulting from inflation to our customers. Our business could be affected by increased wheat prices, coffee prices, sugar prices, acquisitions of existing bakeries, weather, marketing programs, variations in the number of store openings and general economic conditions and diet trends. We have a significant number of employees whose salaries are based on the minimum wage and any increase in the minimum wage would have a significant impact on our operations.

TRANSACTIONS WITH RELATED PARTIES. Transactions with related parties include the purchase of coffee and the leasing of three properties from entities owned by Eugene O'Donovan, our president and chief executive officer and our largest stockholder. We believe these arrangements are consistent in all respects with other arrangements that could have been made with unaffiliated third parties. For a more detailed discussion of these transactions, see "Certain Transactions."

CONSOLIDATED CONTRACTUAL OBLIGATIONS AND LEASE COMMITMENTS. The table below summarizes information about our consolidated contractual cash obligations as of

January 30, 2002 and the effects these obligations are expected to have on our consolidated liquidity and cash flow in future years. The table does not include a consulting agreement with our underwriter to be signed by us at the closing of the offering, which will require us to make payments of $75,000 per year for two years.

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR (THROUGH JANUARY 29, 2003)	1 TO 3 YEARS	4 TO 5 YEARS	AFTE 5 YEA
Series A convertible preferred stock(1)	$ 2,500,000	$ -0-	$ 2,500,000	$ -0-	$
Subordinated convertible debentures(1)	4,538,500	-0-	4,538,500	-0-	
Convertible promissory note(2)	2,000,000	-0-	2,000,000	-0-	
Service related obligation(1)	45,000	30,000	15,000	-0-	
Notes on vehicles	78,603	34,418	44,185	-0-	
Operating lease obligations	8,080,982	1,057,461	1,954,778	1,847,122	3,221
	$17,243,085	$1,121,879	$11,052,463	$1,847,122	$3,221

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(1) These obligations will be eliminated at or prior to the closing of the offering, when our series A convertible preferred stock and subordinated convertible debentures convert into shares of our common stock.

(2) On or prior to the closing of the offering, the Cephas Capital Partners convertible promissory note will be modified and will become due and payable on June 22, 2007.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS. In July 2001, the

Financial Accounting Standards Board, or FASB, issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141, which we have adopted, requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill and other intangibles be replaced with periodic tests of the goodwill's impairment and that intangible assets with other than indefinite lives be amortized over their useful lives. The implementation of these statements did not have a significant impact on our financial position or results of operations.

We adopted the provisions of Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognized in Financial Statements," on January 1, 2001. The implementation of the provisions of SAB No. 101 did not have an impact on our financial position or our results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which we adopted on January 31, 2002. SFAS No. 144 addresses the accounting model for long-lived assets to be disposed of by sale and resulting implementation issues. The statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell,

whether reported in continuing operations or in discontinued operations. SFAS No. 144 did not have a material impact on our financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. We focus your attention on the following:

ASSET IMPAIRMENT. All long-lived assets are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Assumptions used in these cash flows are consistent with internal forecasts.

INCOME TAXES. Our effective tax rate and the tax bases of our assets and liabilities reflect our best estimate of the ultimate outcome of tax audits. Valuation allowances are established where expected future taxable income does not support the realization of the deferred tax assets. Considerable management judgment is also necessary in estimating future taxable income. Assumptions used in these estimates are consistent with internal forecasts.

BUSINESS

OVERVIEW

ABOUT US. Montana Mills was founded as a New York corporation in June 1996 and reincorporated as a Delaware corporation in 1998. We reincorporated in order to take advantage of the corporate governance flexibility given to corporations generally under Delaware corporate law. Eugene O'Donovan, our president and chief executive officer, and Susan O'Donovan, our executive vice president, designed our village bread store concept. Through our subsidiaries, we offer freshly prepared bread and other baked goods prepared in small batches in an open-view baking format using fresh ingredients including freshly ground wheat and dough made from scratch. All aspects of our baking process are conducted in full view of customers to emphasize the homemade aspect of our bread and other baked goods. We also sell our fresh bread and other products at satellite cafes, which are small stores with up to 45 seats where customers can enjoy fresh bakery products supplied by one of our nearby village bread stores.

Our locations are decorated with and contain natural colors and hues, maple counters and tables and educational, in-store displays to further highlight our image of freshness and quality. Customers generally are greeted by an employee and offered a free, fresh slice the "size of Montana" of one of any breads available that day. In addition to bread, we also bake muffins, scones, cookies, granola and other baked goods. We also offer sandwiches under the "Breader" name and sell coffee beverages under the Java Joe's brand name. To supplement our village bread stores and satellite cafes and expand our market reach, we operate one permanent and several seasonal kiosks in upscale shopping malls.

OUR STORES. As of May 1, 2002, we operated 28 permanent stores, consisting of 20 village bread stores, eight satellite cafes and one permanent kiosk. During the November and December 2001 holiday season, we operated seven seasonal kiosks. We also have eight village bread stores and satellite cafes in various stages of negotiation and development. We believe that we are positioned to capitalize on our competitive advantages and favorable industry trends as we implement our growth strategy.

OUR CULTURE. Our operating philosophy is to:

- vertically integrate production on-site at our village bread stores, utilizing an open-view baking format that allows customers to watch and experience the entire baking process and reaffirms the freshness and quality of our breads and baked goods;

- provide high quality, all-natural fresh bread and baked goods to customers at all of our locations; and

- offer a broad array of proprietary products.

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OUR FOCUS. We are different from our competitors because we:

- focus predominantly on bread and other bakery items, which generated approximately 72% of our sales during the fiscal year ended January 30, 2002;

- bake all of our products fresh daily from scratch, using basic ingredients such as Montana spring wheat milled by us fresh each day;

- offer a menu of proprietary products consisting of more than 80 different breads and dozens of other products (six to ten breads are produced daily and production is rotated);

- provide superior customer service, including our policy to offer each customer a free, fresh slice of bread the "size of Montana"; and

- continually update our customer service initiatives to create a neighborhood and community feeling and build goodwill.

GROWTH STRATEGY

Our business strategy is to continue to differentiate ourselves from our competitors and to capitalize on a retail bread and bakery products market that we believe is expanding. Specifically, we plan to build a widely recognized and respected brand name by further penetrating new and existing markets, clustering new locations, continuously improving the experience of our customers, further developing our catalog and internet sales, entering the franchising market, exploring wholesaling to other retailers and cafes and examining strategic acquisitions.

FURTHER PENETRATE NEW AND EXISTING MARKETS. Opening additional stores in existing and new markets is the cornerstone of our effort to build a widely recognized brand name. Since our inception, we have expanded upon our village bread store locations to include satellite cafes, kiosks, the Java Joe's coffee concept and a wide array of products, including baked goods and Breader sandwiches.

- Build out of existing markets. We believe that clustering new locations in existing markets will increase recognition of the Montana Mills brand name and create a strong platform for a broad regional expansion program. We intend to open new locations in core markets that are geographically convenient to our Rochester, New York headquarters. We believe that this strategy will assist us in strengthening our brand name in our core markets.

- Penetrate new markets. Building on the strength of the Montana Mills brand name in our core markets, we have identified a number of cities throughout upstate New York, Pennsylvania, Ohio and Connecticut to open new stores. We have conducted demographic surveys of these locations and have determined that their populations fit our profile for store development. In addition, we believe that these markets have not captured the attention of larger, national bakery chains. We believe that we can establish the Montana Mills brand name and develop a loyal customer base in these areas, thereby

creating significant barriers to entry for competitors in these markets. We believe that it will take us approximately 12 to 24 months to establish the Montana Mills brand in each new market we enter. The costs associated with our branding efforts are contained within our new store development costs, which we anticipate will be approximately $260,000 per store.

CONTINUOUSLY IMPROVE THE EXPERIENCE OF OUR CUSTOMERS. In each of our stores, we seek to provide value to our customers by continually expanding our product offerings and further improving our prompt, courteous service and pleasant customer-service oriented atmosphere.

- Expansion of product offerings. We continually create new products, illustrated by our expansion from approximately 15 types of bread in 1996 to more than 80 types of bread and a wide array of baked goods, coffee beverages and related products. We intend to continue to maintain and improve our product offerings through customer surveys and independent research designed to assess consumer demands and preferences.

- Continuously improve customer service. We believe that superior customer service is critical to achieving customer satisfaction and operating success. We utilize comprehensive management training programs to ensure that our employees provide customers with an enjoyable experience during every store visit. An integral part of this experience is our policy to greet each customer with a free slice of bread the "size of Montana."

FURTHER DEVELOP OUR CATALOG AND INTERNET PROGRAMS. Our mail order catalog and internet businesses represented approximately $648,000, or 6%, of our total sales in our fiscal year ended January 30, 2002. We believe that opportunities exist to grow our catalog and internet businesses substantially, thereby generating additional revenue as well as expanding awareness of the Montana Mills brand name. We believe that it will take us approximately 12 to 24 months to grow our catalog and internet businesses such that the revenues generated by such businesses grow by 50%. We intend to focus our growth efforts through in-store advertising and expect to spend approximately $100,000 in advertising costs during this 24-month period.

We also believe that we can utilize our catalog to direct customers to our website. Our website received approximately 289,000 visits by viewers during our fiscal year ended January 30, 2002. Our website was awarded honors by The Rochester Business Journal in 2001 for the Best Home Page and Best Overall Website in the small business category for Rochester-based companies. On our website, customers may place online orders and view our product offerings. Additionally, we intend to explore opportunities to further capitalize on the corporate gift segment, which we believe can generate significant revenues. Currently, corporate gifts do not represent a significant component of our catalog or internet businesses. However, we intend to more heavily promote our sales of corporate gifts after the offering. Our internet strategy is continuous and the expense of maintaining, operating and updating our website is minimal.

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FRANCHISING AND RELATIONSHIPS WITH OTHER RETAILERS

FRANCHISING. We intend to diversify our customer base and expand our operations into new geographic areas by franchising our stores. Our franchise strategy will be to grant franchisees the exclusive right and license to operate our stores within a defined territory.

We intend to provide franchisees with stringent guidelines and specifications for the operation of stores, initial training, and the use of our name, service marks and proprietary marks. We will also assist franchisees with identifying site locations and provide franchisees with advice on advertising and other promotional techniques. Our franchisees will be required to buy supplies from us or from alternative suppliers that we have pre-approved. Additionally, our franchisees will be required to purchase promotional materials, catalogs and various other products from us.

We intend for our franchisees to bear the complete financial responsibility for opening and operating franchised stores, including purchasing insurance, hiring employees, entering into lease agreements and purchasing or leasing equipment. In exchange for our services and the rights granted by franchise agreements, franchisees will pay various fees to us.

We also intend for our franchisees to indemnify us and hold us harmless from any liability, claim or judgment arising from their franchised business. We will be able to terminate any franchise agreement upon the occurrence of events of default, which will include a franchisee's failure to pay monies owed to us, failure to maintain licenses, a franchisee's misuse of our service or proprietary marks or a franchisee's insolvency. We have not entered into any franchise agreements as of the date of this prospectus. We anticipate that our franchise offering documents will be finalized during our current fiscal year. We have allocated $500,000 of the net proceeds of the offering towards developing our franchising infrastructure. We anticipate offering franchises promptly after we complete our franchise offering documents. We believe that it will take between two and five years to fully implement our franchise strategy.

WHOLESALING WITH OTHER RETAILERS AND CAFES. We also believe that opportunities exist for us to distribute our products through contractual relationships with other retailers. Although we have not entered into any of these relationships to date, we intend to vigorously explore opportunities as they present themselves. We recently began wholesaling our products to eleven supermarkets and five convenience stores in the Rochester, New York market. We anticipate that our wholesaling strategy will take two years to implement broadly across our current markets and that the costs associated with executing our wholesaling strategy will be approximately $800,000.

EXPLORE ACQUISITIONS. Due to the fragmented nature of the industry in which we compete, we believe a significant opportunity exists for consolidation. We intend to continuously examine potential acquisition opportunities as they arise and will consider the acquisition of existing companies where we believe the potential exists for achieving economies of scale, increasing the recognition of the Montana Mills brand name or where completing an acquisition will otherwise benefit our growth strategy or results of

operations. We currently have no agreements or understandings with any party regarding potential acquisitions, nor have we identified any potential acquisition targets.

PRODUCTS

OVERVIEW. We offer more than 80 different varieties of bread and dozens of other products. We bake six to ten types of bread per day according to a weekly schedule that we distribute to our customers. Approximately every month we introduce a new bread recipe that is offered as a weekly special generally for one month. A new bread may be placed on the regular baking schedule if it becomes popular with customers. Although we offer a broad range of baked goods, we maintain a simple baking process, as all of our items can be baked in one oven at one constant temperature. While fresh baked bread is the foundation of our business, representing approximately 50% of our total revenues during the fiscal year ended January 30, 2002, our product offerings also include:

- muffins, rolls and scones;
- cookies, brownies and mudbars;
- biscotti and coffee cakes;
- granola;
- "Breader" sandwiches;
- Java Joe's premium coffee beverages; and
- personal and corporate gift baskets and boxes which include baked goods and other gift items such as bread knives, bread boards, jams and mugs.

Other baked goods (which includes muffins, rolls, scones, cookies, brownies, mudbars, biscotti, coffee cakes and granola) represented approximately 23% of our total revenues during the fiscal year ended January 30, 2002. Gift items represented approximately 10% of our total revenues during such fiscal year and non-traditional products ("Breader" sandwiches and Java Joe's premium coffee beverages) represented approximately 14% of our total revenues during such fiscal year.

BREAD. The baking process for our whole wheat breads, muffins, rolls, scones and cookies starts with fresh stone milled, high protein, chemical-free Montana spring wheat. Bakers at each village bread store grind wheat flour on the premises using a burr mill, which adds to freshness and enhances flavor. Many of our breads have no added fats, oils, milk products, eggs, sugar or artificial preservatives. A typical loaf weighs between one and a half and two pounds. Each store's weekly menu of specialty and basic breads generally includes from 20 to 30 types of bread ranging in price from $3.50 to $6.50 per loaf. Our "Honey Whole Wheat," "Grandma's White" and "Cinnamon Swirl" breads are baked daily in each store, while others are prepared on a rotating basis and generally include a cheese bread, a savory bread, a fruit bread and a specialty bread. Customers may make "bread reservations" up to ten days in advance according to a weekly schedule. The variety of breads we offer is one of the key ways in which we differentiate ourselves from our competitors.

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BAKED GOODS. In addition to fresh-baked bread, we offer a broad range of muffins, rolls, scones, cookies, brownies, mudbars, biscotti, coffee cakes and granola. Similar to our bread baking process, our baked goods are prepared from scratch and baked daily at each village bread store in full view of our customers. On a daily basis, each village bread store also generally produces at least two varieties of muffin, one variety of scone, two varieties of cookie, mudbars, coffeecakes and granola. Prices for baked goods range from $1.25 for a cookie to $10.95 for a coffee cake.

SANDWICHES. All of our village bread stores and satellite cafes offer a variety of sandwiches under our signature "Breader" brand, including "Three Forks Turkey," "Big Horn Roast Beef," "Ham and Cheese," "Harvest Veggie" and "Sunburst Chicken Salad." Breader sandwiches are prepared daily on our fresh baked bread. Breader sandwich prices range from $4.95 to $5.45.

COFFEE BEVERAGES. We offer coffee beverages under the Java Joe's brand name, including flavored coffees, lattes, cappuccinos, chai teas and hot chocolates. Our coffee beverage products generally lend a cafe-style atmosphere to our village bread stores and satellite cafes and emphasize the neighborhood feel of our stores.

GIFT ITEMS. We offer a wide range of personal and corporate gift items through our in-store "Gift Corrals" and through our mail-order catalog and website, including:

- gift boxes and baskets;
- bread;
- baked goods;
- Java Joe's coffee beverages;
- bread knives and slicers;
- cutting boards;

- mugs; and

- other food items such as jam, maple syrup and honey.

Our "Gift Corrals," found in most of our stores, help spur gift sales. Our most popular gift items include specialty breads, baked goods, bread knives and bread boards. Gifts range in price from $0.95 for a bag of fresh milled flour to $37.95 for a hand-made maple bread board. In addition, we offer gift baskets, each with a variety of goods, and "Bread of the Month" programs, which allow for automatic home delivery of our products on a pre-determined schedule. We ship gifts, including our fresh baked bread and baked goods, anywhere in the continental United States.

STORE OPERATIONS

OVERVIEW. Our hours of operations are typically 7:00 a.m. to 7:30 p.m. Monday through Friday, 7:00 a.m. to 6:00 p.m. on Saturday and 7:00 a.m. to 5:00 p.m. on Sunday. A typical village bread store is approximately 1,500 to 2,500 square feet and positioned as a specialty retail store either in a village setting or a