

**UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY**

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ROGER COPLAND, HENRY A. BILLETER, SUE MAY LEE :
& DAVID Y. LEE, H. ROBERT MCKILLOP, On Behalf of : Master File No.
Themselves and All Others Similarly Situated, : 96-CV-3351 (MLC) (FLW)
 : (Consolidated)
 :
Plaintiffs, :
 :
 :
vs. :
 :
 :
JACK GRUMET, LEONARD JOHNSON, MANHATTAN :
BAGEL COMPANY, INC., ERIC CANO, JASON :
GENNUSA, ANDREW GENNUSA, ALLAN BOREN and :
DEBBIE BOREN :
 :
 :
Defendants. :
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**NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF
CLASS ACTION AND SETTLEMENT HEARING THEREON**

TO: ALL PERSONS AND ENTITIES WHO PURCHASED THE COMMON STOCK OF MANHATTAN BAGEL COMPANY, INC. ("MANHATTAN BAGEL" OR THE "COMPANY") FROM FEBRUARY 27, 1996 THROUGH JUNE 20, 1996 (THE "CLASS PERIOD").

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS WILL BE AFFECTED BY PROCEEDINGS IN THIS LITIGATION. PLEASE NOTE THAT, IF YOU ARE A CLASS MEMBER, YOU MAY BE ENTITLED TO SHARE IN THE PROCEEDS OF THE PROPOSED SETTLEMENT DESCRIBED IN THIS NOTICE.

CLAIMS DEADLINE: TO CLAIM YOUR SHARE OF THIS FUND, YOU MUST HAVE SUBMITTED A VALID PROOF OF CLAIM POSTMARKED ON OR BEFORE DECEMBER 21, 2000, ON THE FORM ACCOMPANYING THIS NOTICE, IN THE MANNER SET FORTH IN SECTION VII BELOW.

EXCLUSION DEADLINE: REQUESTS FOR EXCLUSION MUST BE POSTMARKED NO LATER THAN DECEMBER 4, 2000.

SECURITIES BROKERS AND OTHER NOMINEES: PLEASE SEE INSTRUCTIONS SET FORTH BELOW IN SECTION XI.

THIS NOTICE RELATES TO THE PENDENCY AND PROPOSED SETTLEMENT OF THIS CONSOLIDATED CLASS ACTION

The purpose of this Notice is to inform you of the proposed Settlement of this Class Action (the "Action" or the "Litigation") and the hearing to be held by the United States District Court for the District of New Jersey (the "Court") to consider the fairness, reasonableness and adequacy of the proposed Settlement, to determine whether the Stock Portion of the Settlement should be issued pursuant to Section 3(a)(10) of the Securities Act of 1933, and to consider the application of Plaintiffs' Counsel for attorneys' fees and reimbursement of expenses. The proposed Settlement, the terms of which are only summarized in this Notice, is embodied in a Stipulation of Settlement dated September 7, 2000 (the "Stipulation") which has been filed with the court. Pursuant to Rule 23 of the Federal Rules of Civil Procedure and an Order of the Court dated September 13, 2000, a hearing (the "Settlement Hearing") to consider whether the proposed Settlement is fair, reasonable and adequate and should be approved, to determine whether the Stock Portion of the Settlement should be issued pursuant to Section 3(a)(10) of the Securities Act of 1933, and to consider the application of Plaintiffs' Counsel for attorneys' fees and reimbursement of expenses, will be held before the Honorable Freda L. Wolfson at the United States District Courthouse for the District of New Jersey, Clarkson S. Fisher Building, 402 E. State Street, Trenton, New Jersey 08609 on December 19, 2000.

1. The Court, by Order dated September 13, 2000, conditionally certified a Settlement Class under Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of a class consisting of: all persons or entities who purchased the common stock of Manhattan Bagel during the period from February 27, 1996 through June 20, 1996. Excluded from the Settlement Class are the Defendants, Allen Boren, Debbie Boren and Eric Cano (collectively, the "Manhattan Bagel Defendants"), members of the Manhattan Bagel Defendants' immediate families, any entity which is or was a parent or subsidiary of or is or was controlled by Manhattan Bagel, and any person, firm, trust, corporation, officer, director or other individual or entity in which any of the Manhattan Bagel Defendants has a controlling interest or which is related to or affiliated with any of the Manhattan Bagel Defendants, and the legal representatives, heirs, successors-in-interest or assigns of any such excluded party. Any Settlement Class member who files a request for exclusion in accordance with the requirements set forth in this Notice shall be excluded and shall not participate in the Settlement.

A. Statement of Plaintiffs' Recovery

Pursuant to the Settlement described herein, Defendants have caused to be paid the sum of one million dollars (\$1,000,000) in cash plus interest (the "Cash Portion) from the "D&O Policy" that was the subject of the "Insurance Action" (as described in the "History of Litigation" section below) into an interest bearing account. In addition, as part of the Settlement, New World Coffee-Manhattan Bagel Company, Inc. ("New World") on behalf of Defendants, will issue 100,000 shares of freely tradeable New World common stock with a guaranteed minimum value as of the Distribution Date of \$2.00 per share or \$200,000 in total (the "Stock Portion"). The Cash Portion and the Stock Portion are collectively referred to as the "Settlement Fund".

Plaintiffs estimate that purchasers of approximately 2,381,100 million shares of Manhattan Bagel common stock purchased during the Class Period suffered damages as a result of the alleged wrongdoing described below. Plaintiffs estimate that the average recovery under the Settlement will therefore be approximately \$0.50 per share before deduction of attorneys' fees and expenses, as approved by the Court. Depending upon the number of claims filed, when shares were purchased during the Class Period, and whether those shares were held at the end of the Class Period, and if sold, when they were sold, an individual Settlement Class member may receive more or less than this average amount. See Section VII below for a more descriptive analysis.

A Settlement Class member's distribution from the Settlement Fund will be governed by the Plan of Allocation, set forth in Section VII below as approved by the Court. A detailed explanation of how each Settlement Class member's claim will be calculated is set forth in Section VII below.

B. Statement of Potential Outcome

In determining to settle this Action, Plaintiffs considered the substantial risk that Plaintiffs and the Class might not have prevailed on any or all of their claims and that there were substantial risks that the decline in the price of Manhattan Bagel common stock could be attributed, in whole or in part, to factors other than Defendants alleged unlawful conduct, and that therefore, Plaintiffs could have recovered nothing or substantially less than the Settlement amount.

Lead Plaintiffs and Defendants do not agree on the average amount of damages per share that would be recoverable if Lead Plaintiffs were to have prevailed on each claim asserted. The parties also disagree as to whether in fact any of the Defendants actually engaged in the alleged unlawful behavior. The issues on which the parties disagree include, among other things, (1) the amount by which Manhattan Bagel common stock was allegedly artificially inflated (if at all) during the Class Period; (2) whether stock-price movements in Manhattan Bagel common stock which followed the Company's June 20, 1996 announcement were caused in whole or even in part by the alleged misstatements and omissions made by the Defendants; (3) whether the alleged misstatements and omissions were material to investors which is necessary in order to support the cause of action stated; and (4) the extent to which the members of the Settlement Class were damaged (if at all) by the alleged misstatements and omissions.

C. Statement of Attorneys' Fees and Costs Sought

Under the terms of the Stipulation, Plaintiffs' Counsel may apply for an award of attorneys' fees in an amount not to exceed 33.33% percent of the Settlement Fund or approximately \$0.17 per share, as well as reimbursement for expenses incurred in the prosecution of this litigation in an amount not to exceed \$215,000 or approximately \$0.09 per share. Defendants take no position on the application for attorneys' fees and costs. See Section IX.

D. Reasons for Settlement

The principal reason for agreeing to the proposed Settlement is that Plaintiffs' Counsel recognized that there were risks involved in continuing the Litigation including facing substantial hurdles in overcoming the issues of liability and causation. Plaintiffs' Counsel also recognized that there was a risk that Plaintiffs and the Class might not have prevailed on any of their claims and contentions or would have only prevailed on some of their claims and therefore, would have recovered nothing or substantially less than the Settlement amount. Therefore, Plaintiffs' Counsel believe that it is fair, reasonable and adequate to the members of the Class. They reached this conclusion after investigating and considering, among other things, the strengths and weaknesses of Plaintiffs' claims against the Defendants, and the uncertainties inherent in this complex litigation, as well as the substantial benefit provided by the Settlement to the members of the Class. See Section III.

E. Identification of Plaintiffs' Lawyers

Any questions regarding the Settlement should be directed to the following Counsel:

ABBEY, GARDY & SQUITIERI, LLP
Stephen J. Fearon, Jr., Esq.
Nicholas H. Gilbo
212 East 39th Street
New York, NY 10016

KAPLAN, KILSHEIMER & FOX, LLP
Frederic S. Fox, Esq.
Joel B. Strauss, Esq.
805 Third Avenue
New York, New York 10022

I. DESCRIPTION OF THE LITIGATION

A. History of the Litigation

On July 2, 1996, the first of eight class action lawsuits was commenced in the United States District Court for the District of New Jersey (the "Court") against Manhattan Bagel and certain of its officers and/or directors, Jack Grumet, Leonard Johnson, Jason Gennusa and Andrew Gennusa (the "Individual Defendants") (collectively the "Defendants"), Eric Cano ("Cano"), and Allan and Debbie Boren (the "Borens") (the Defendants, Cano and the Borens are collectively referred to as the "Manhattan Bagel Defendants"). Those actions were styled as follows:

Roger Copland v. Jack Grumet, et al., 96-CV-3351 (MLP);
Henry A. Billeter v. Manhattan Bagel Co., Inc., et al., 96-CV-3357 (GEB);
Arco Van Antwerpen v. Manhattan Bagel Co., Inc., et al., 96-CV-3690 (MLP);
H. Robert McKillop v. Manhattan Bagel Co., Inc., et al., 96-CV-3579 (MLP);
Robert Gelsher v. Manhattan Bagel Co., Inc., et al., 96-CV-3581 (MLP);
Donna L. Wozniak, et al. v. Jack Grumet, et al., 96-CV-4170 (MLP);
Michael C. Shugrue v. Manhattan Bagel Co., Inc., et al., 96-CV-4171 (MLP); and
Richard J. Weaver v. Manhattan Bagel Co., Inc., et al., 96-CV-4073 (MLP).

By order entered October 22, 1996 (the "Consolidation Order"), the Court: (i) consolidated the actions under Master File No. 96-CV-3351 (the "Consolidated Action" or the "Action"); (ii) appointed Roger Copland, Henry A. Billeter, Sue May Lee and David Y. Lee as Lead Plaintiffs pursuant to § 21D(a)(3)(B)(v) of the Securities Exchange Act of 1934 (the "Exchange Act") (H. Robert McKillop was added as a member of the Lead Plaintiff's group by a subsequent order amending the Consolidation Order); and (iii) approved Lead Plaintiffs' selection of Abbey & Ellis - presently known as Abbey, Gardy & Squitieri, LLP - and Kaplan, Kilsheimer & Fox, LLP as Lead Plaintiffs' Counsel for the Action, and the selection of Plaintiffs' Liaison Counsel. By order dated February 14, 1997, this Court consolidated a related California state court action, entitled Overend v. Manhattan Bagel Co., Inc., et al., CA 96-5900 (the "Overend Action"), with the Action.

In 1997, an action entitled National Union Fire Insurance Company of Pittsburgh, PA v. Manhattan Bagel Company, Inc., et al., Civ. Action No. 97-5163 (MLP) (the "Insurance Action") was filed in the District of New Jersey seeking to resolve competing claims against the Directors and Officers Liability Policy (the "D&O Policy") issued by National Union Fire Insurance Company of Pittsburgh, PA ("National Union") on behalf of Manhattan Bagel. The Court dismissed the Insurance Action for failing to timely serve the complaint.

On November 19, 1997, as a result of significant losses and being placed in default by its primary lender, Manhattan Bagel filed a bankruptcy petition in the U.S. Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). Thereafter, on July 29, 1998, New World Coffee & Bagels, Inc., ("New World") agreed to acquire Manhattan Bagel. On November 20, 1998, the Bankruptcy Court approved New World's acquisition of Manhattan Bagel and on November 25, 1998, New World announced that it had closed on its acquisition of Manhattan Bagel.

In 1999, the Insurance Action was re-filed under Civ. Action No. 99-5065 (MCL). Thereafter, on November 18, 1999, the Court consolidated the Insurance Action with the Litigation.

The Consolidated Amended Complaint (the "Complaint"), which was subsequently amended by the filing of the Second Consolidated Amended Complaint (the "Amended Complaint"), alleged that Manhattan Bagel Defendants violated Sections 11 and 15 of the Securities Act of 1933 (the "Securities Act") and Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. Specifically, Plaintiffs alleged that during the Class Period, the Manhattan Bagel Defendants issued false and misleading statements concerning Manhattan Bagel, including the Company's revenues and earnings. The Complaint also alleged that the Manhattan Bagel Defendants failed to disclose material accounting improprieties and other problems at I&J Bagel ("I&J") (a significant subsidiary of Manhattan Bagel which the Company acquired in June 1995) that were discovered as a result of an investigation conducted by the Manhattan Bagel Defendants of I&J immediately prior to the Class Period. As a result of the investigation, Plaintiffs alleged the Manhattan Bagel Defendants learned of serious adverse information concerning I&J, including: that I&J's and therefore Manhattan Bagel's reported revenues and earnings were materially false; I&J financial statements violated Generally Accepted Accounting Principles ("GAAP"); and top-level I&J and Manhattan Bagel employees were responsible for accounting the improprieties.

The Complaint and the Amended Complaint alleged that the Manhattan Bagel Defendants failed to disclose material problems at Manhattan Bagel and I&J, including the overstatement, in violation of GAAP, of the Company's reported revenues and earnings for the year-end December 31, 1995 and for the fiscal quarter-ended March 31, 1996. Additionally, Plaintiffs alleged that the Manhattan Bagel Defendants conspired with Allan Boren, past president of I&J, to sell approximately \$20 million worth of stock at artificially inflated prices.

The complaint in the Overend Action (the "Overend Complaint"), originally filed in California state court and transferred to this Court, alleged that the defendant Manhattan Bagel and defendants Jack Grumet and Leonard Johnson violated various sections of California state law based on the same allegations as set forth in the Consolidated Action. The Consolidation Action along with the Overend Action may be referred jointly hereafter as the "Litigation".

Subsequently, the Manhattan Bagel Defendants filed various motions to dismiss the Complaint, the Amended Complaint and the Overend Complaint. Although the Court dismissed the allegations as to Allan Boren and Cano, it denied the Defendants' motions, sustaining all claims against them. The Court also denied the Defendants' motion to dismiss the Overend Complaint.

Defendants have denied, respectively, the allegations of the Complaint, Amended Complaint and the Overend Complaint, and do not acknowledge any fault, wrongdoing, or liability. Specifically, Defendants assert that: 1) Defendants did not learn in January 1996 of serious adverse information concerning I&J either in regard to its earnings, its financial statements or concerning any alleged accounting improprieties; 2) Defendants did not fail to disclose any material information, and they did not conspire with anyone to purportedly inflate Manhattan Bagel stock; and 3) any material information obtained by Defendants concerning I&J or Manhattan Bagel was disclosed promptly following its receipt. Defendants deny any liability with respect to the allegations in the Complaint, Amended Complaint and the Overend Complaint and are settling the Litigation purely to avoid the time and expense of further litigation.

The Stipulation is not and should not be construed or be deemed to be evidence or an admission or a concession on the part of any of the Defendants of any fault or liability. The Court, by approving this Notice or otherwise, has not expressed any opinion as to the merits of any of Plaintiffs' claims or allegations, and this Notice shall not be construed as expressing any such opinion, but is provided only so that you may decide what steps, if any, to take in relation to the proposed Settlement.

B. Class Action Determination

For purposes of the proposed Settlement, the Court has, by order dated September 13, 2000, certified the following Settlement Class:

All persons or entities who purchased the common stock of Manhattan Bagel during the period from February 27, 1996 through June 20, 1996. Excluded from the Class are the Manhattan Bagel Defendants, members of the Manhattan Bagel Defendants' immediate families, any entity which is or was a parent or subsidiary of or is or was controlled by Manhattan Bagel, and any person, firm, trust, corporation, officer, director or other individual or entity in which any of the Manhattan Bagel Defendants has a controlling interest or which is related to or affiliated with any of the Manhattan Bagel Defendants, and the legal representatives, heirs, successors-in-interest or assigns of any such excluded party.

Any Settlement Class member who files a request for exclusion in accordance with the requirements set forth in this Notice shall be excluded and shall not participate in the Settlement.

Also for purposes of the proposed Settlement, the Court has certified the Lead Plaintiffs as "Class Representatives".

II. YOUR RIGHT TO BE EXCLUDED FROM THE CLASS

If you purchased Manhattan Bagel common stock on the open market during the Class Period as described above, and are not a Defendant or other excluded person, you are a member of the Class. You may request exclusion from the Class in writing mailed by first class mail and addressed to:

Manhattan Bagel Securities Litigation
c/o Gilardi & Co., LLC
Claims Administrator
P.O. Box 5100
Larkspur, CA 94977-5100

Your request for exclusion must be signed, must clearly indicate that you request to be excluded from the Settlement Class, and must state the name, address, and social security or taxpayer identification number of the person seeking exclusion and the amount or number of shares of Manhattan Bagel common stock purchased during the Class Period, the date(s) of purchase and the price(s) paid therefor, and the number of shares of Manhattan Bagel common stock sold, exchanged, or transferred during the Class Period, if any, and the date(s) of sale, exchange, or transfer and the amount(s) received therefor, as well as the number of shares still owned as of the close of trading on June 20, 1996. The request for exclusion will not be valid unless all of the required information is provided and unless the request for exclusion is mailed by first class mail and postmarked no later than December 4, 2000.

All members of the Class who do not wish to be excluded may participate in and will be bound by the proposed Settlement. If you wish to share in the Settlement proceeds, you must file a Proof of Claim form, described below, and your rights will be represented by Lead Counsel for Plaintiffs:

ABBEY, GARDY & SQUITIERI, LLP
Stephen J. Fearon, Jr., Esq.
Nicholas H. Gilbo
212 East 39th Street
New York, NY 10016

KAPLAN, KILSHEIMER & FOX, LLP
Frederic S. Fox, Esq.
Joel B. Strauss, Esq.
805 Third Avenue
New York, New York 10022

If you request exclusion, you will not be entitled to share in the benefits of any court-approved settlement or be bound by any judgment in this class action. Any Settlement Class member who does not request exclusion may enter an appearance through

counsel of your own choice at your own expense. Such counsel must file an appearance on your behalf on or before December 4, 2000, and must serve copies of such an appearance on the attorneys listed above.

III. REASONS FOR THE SETTLEMENT

The decision to enter into this Settlement was made with knowledge of the facts and circumstances underlying Plaintiffs' claims and the strengths and weaknesses of those claims. Plaintiffs' Counsel engaged in extensive and intensive arms-length negotiations with counsel for the Defendants with respect to the Settlement and, in determining to settle the Action, Plaintiffs' Counsel have evaluated many factors including the expense and length of time necessary to prosecute the Litigation through trial, post-trial motions and likely appeals, and considered the significant uncertainties in predicting the outcome of this complex litigation. Based upon consideration of these factors, and balancing them against the certain and substantial benefits that will be received as a result of the Settlement, Plaintiffs' Counsel have concluded that the Settlement described herein is fair, reasonable, adequate and that it is in the best interests of Plaintiffs and the Class to settle the action on the terms described herein.

The Defendants, while continuing to deny all allegations of wrongdoing or liability whatsoever, desire to settle and terminate all existing or potential claims against them, without in any way acknowledging any fault or liability, in order to avoid burdensome, protracted and uncertain litigation, and have agreed to settle the claims against them and terminate the litigation.

IV. SUMMARY OF THE PROPOSED SETTLEMENT

The Settlement consists of one million dollars (\$1,000,000) in cash plus interest (the "Cash Portion) that Defendants have caused to be paid from the D&O Policy that was the subject of the Insurance Action into an interest bearing account. In addition, New World, on behalf of Defendants, will issue 100,000 shares of freely tradeable New World common stock with a guaranteed minimum value as of the Distribution Date of \$2.00 per share or \$200,000 in total (the "Stock Portion"). The Cash Portion and the Stock Portion are collectively referred to as the "Settlement Fund".

The Settlement Fund (net of any amounts paid out pursuant to the terms of the Settlement and Orders of the Court, plus any interest earned) will be held for the benefit of the Settlement Class to be distributed as set out in Section VII below.

Plaintiffs have estimated an average recovery under the Settlement of approximately \$0.50 per share of Manhattan Bagel common stock traded during the Class Period. However, the actual recovery obtained by any member of the Class will vary from the average recovery per share depending upon numerous other factors, including (i) the actual number and amounts of claims submitted by members of the Class; and (ii) the timing of the Settlement Class members' transactions in Manhattan Bagel common stock during the Class Period. In addition, the portion of the Settlement Fund available for distribution to Settlement Class members may be reduced for payment of various costs and expenses, including attorneys' fees and costs associated with prosecution of the Litigation.

The Settlement will become effective, if approved by the Court, after the judgment entered by the Court becomes final.

This Notice is not intended to be a complete description of the Stipulation. The Stipulation contains the full and complete terms of the Settlement, and is available as set forth in Section XII below.

V. EFFECT OF APPROVAL OF THE PROPOSED SETTLEMENT

If the Court approves the proposed Settlement,

A. Judgment will be entered approving the Settlement as fair, reasonable, adequate and in the best interests of the Class; determining the reasonable amount of attorneys' fees and reimbursement of costs and disbursements to be awarded to Plaintiffs' Counsel, and retaining jurisdiction for the purpose of effectuating the terms and provisions of the Settlement;

B. The members of the Class will release or be deemed to have released all of the Released Parties (defined below) with respect to each of the Released Claims (defined below).

1. (a) "Released Parties" means each current Defendant and, except as discussed below, whether or not identified in any complaint filed in the Litigation, each Defendant's past or present directors, officers, employees, partners, principals, agents, predecessors, successors, parents, subsidiaries, divisions, joint ventures, attorneys, insurers, reinsurers, assigns, spouses, heirs, related or affiliated entities, or any members of their immediate families, or any trusts for which any of them are trustees, settlers or beneficiaries.

(b) Excluded from the Released Persons are Allan Boren, Debbie Boren and Eric Cano. Plaintiffs and the Class will not release any claims that they have or may have against them.

2. "Released Claims" means any and all claims that have been brought or could have been brought against any or all of the Released Parties including, including: (i) all federal statutory and common law claims, including, but not limited to, claims under the Securities Act and the Exchange Act; and (ii) all state statutory and common law claims, including, but not limited to, state securities law claims, claims under the law of fraud and deceit, false advertising and unfair competition claims, and claims sounding in negligence. The term Released Claims shall also include Unknown Claims, which a Plaintiff or member of the Settlement Class does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released

Parties, or might have affected his, her or its decision not to object to this settlement. The Plaintiffs and members of the Settlement Class may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Settled Claims, but the Plaintiffs and each member of the Settlement Class, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have, fully, finally and forever settled and released any and all Settled Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including, without limitation, conduct which is negligent, intentional, with or without malice, or a breach of any duty, statute, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. Plaintiffs waive and relinquish to the fullest extent possible any state or federal law concerning the release of unknown claims.

C. The Settlement will become effective at such time as Orders entered by the Court approving the Settlement shall become final and not subject to appeal (the "Effective Date").

VI. YOUR SHARE OF THE SETTLEMENT FUND

If the proposed Settlement becomes effective, Settlement Class members will be entitled to share in the distribution of the proceeds of the Settlement Fund allocated to the Class, after payment of attorneys' fees, expenses, and expenses of the settlement administration, to the extent allowed by the Court.

Payments and distributions from the Settlement Fund on claims submitted by Settlement Class members shall be made in accordance with the Plan of Allocation (the "Plan of Allocation") approved by the Court.

VII. PLAN OF ALLOCATION

The Settlement Fund, net of the costs of the notice and administration of the Settlement, attorneys' fees and costs as may be awarded by the Court (the "Net Settlement Fund"), shall be distributed to claimants who timely submit valid Proof of Claim forms ("Authorized Claimants") in proportion to their "Recognized Loss."

"Recognized Loss" shall be calculated as follows:

(a) Recognized Loss for shares of Manhattan Bagel common stock that were purchased and sold during the Class Period is equal to 25% of the market loss on such shares, which is defined as the amount paid for those shares (excluding brokerage commissions and transactions charges) less the net amount realized (excluding brokerage commissions and transaction charges) from the sale of any such shares during the Class Period;

(b) Recognized Loss for shares of Manhattan Bagel common stock purchased during the Class Period and sold between June 20, 1996 and September 18, 1996 is equal to the lesser of (1) the amount paid for those shares (excluding brokerage commissions and transaction charges) less the mean closing price for the trading days during the period between June 20, 1996 and the date of the sale; or (2) the purchase price less the sales price (excluding brokerage commissions of the transaction charges).

(c) Recognized Loss for shares of Manhattan Bagel common stock that were purchased during the Class Period and not sold before September 18, 1996, is equal to the lesser of (i) the amount paid for those shares (excluding brokerage commissions and transaction charges) less \$12.159 per share; or (ii) \$13.25 per share.

(d) The date of purchase or of sale is the contract or "trade" date as distinguished from the "settlement" date;

(e) With respect to any transactions that result in gains, such gains shall be offset against any losses. If the result of such netting is a net gain, the Settlement Class member shall have incurred no Recognized Loss;

(f) Authorized Claimants who have not filed a valid and timely Request for Exclusion will receive the following benefits pursuant to the Settlement if approved by the Court: (i) if the Net Settlement Fund is sufficient, their Recognized Loss; or (ii) if the Net Settlement Fund is less than the sum of all Recognized Losses of all Authorized Claimants, their pro rata share as determined by the proportion that the Authorized Claimant's Recognized Loss bears to the sum of all Authorized Claimants' Recognized Losses; and

(g) In the event that a member of the Settlement Class made multiple purchases and/or sales during the Class Period, sales during the Class Period and holdings of Manhattan Bagel shares at the end of the Class Period shall be matched on a first-in, first-out ("FIFO") basis against purchases during the Class Period. Gains realized from any such FIFO match-ups shall be deducted from the losses realized from other FIFO match-ups to determine the value of an Allowed Claim.

In the event that you acquired your Manhattan Bagel shares by way of gift or bequest, you must provide the date and original purchase price paid by the giftor. In addition, a claim may be filed by either a giftor or a giftee, but not by both.

The Net Recognized Loss computation is not intended to be an estimate of what a Settlement Class member might have been able to recover at trial, and it is not an estimate of the amount that will be paid pursuant to this Settlement. Instead, this computation is only a method to weigh Settlement Class members' claims against one another. Each Authorized Claimant will receive a pro-rata share of the Net Settlement Fund based on his, her or its Net Recognized Loss.

Authorized Claimants shall receive their pro-rata share of the net Settlement Fund based upon the ratio of the Authorized Claimant's Net Recognized Loss to the total Net Recognized Loss of all Authorized Claimants. Therefore, if the Net Settlement Fund is less than the total of the Recognized Losses of all Authorized Claimants, the amount each Authorized Claimant receives will be less than his, her or its Net Recognized Loss; conversely, if the Net Settlement Fund is more than the total of the Recognized Losses of all Authorized Claimants, the amount each Authorized Claimant receives will be more than his, her or its Net Recognized Loss.

In the case of Authorized Claimants who would receive less than 25 shares of New World common stock in partial satisfaction of their claim, their claim shall be paid in cash only.

The computation of Allowed Claims will be the responsibility of the Claims Administrator.

Settlement Class members who do not file acceptable Proofs of Claim will not share in the Settlement Fund. Settlement Class members who do not either file a request for exclusion or file acceptable Proofs of Claim will nevertheless be bound by the Judgment and the Settlement.

TO SUBMIT A CLAIM TO SHARE IN THE PROCEEDS OF THE PROPOSED SETTLEMENT DESCRIBED ABOVE, YOU MUST FILL OUT AND SUBMIT THE ENCLOSED PROOF OF CLAIM AND RELEASE ON THE ATTACHED FORM, POSTMARKED NO LATER THAN DECEMBER 21, 2000. EACH CLASS MEMBER, BY FILING A CLAIM, SHALL SUBMIT TO THE JURISDICTION OF THE COURT FOR PURPOSES OF THIS LITIGATION.

ANY SETTLEMENT CLASS MEMBER WHO FAILS TO SUBMIT A VALID AND TIMELY PROOF OF CLAIM AND RELEASE FORM WILL BE FOREVER BARRED FROM SHARING IN THE DISTRIBUTION PROCEEDS OF THE SETTLEMENT, BUT WILL NONETHELESS BE BOUND BY JUDGMENT.

In the event that an appeal is taken or a motion is filed as to the Court's approval of the proposed Settlement, no distribution will be made until such time as any motions or appeals are finally resolved in such manner as to permit consummation of the Settlement in accordance with the Stipulation.

VIII. TERMINATION OF PROPOSED SETTLEMENT

If there is no final court approval of the proposed Settlement in this case, or if the Defendants withdraw from the Settlement in accordance with the Stipulation, or if the Settlement is not consummated for any other reason, the Stipulation will become null and void, and the parties will resume their former positions in this Litigation.

IX. APPLICATION FOR ATTORNEYS' FEES AND EXPENSES

At the hearing described below, Plaintiffs' Counsel will make an application for an award by the Court of attorneys' fees in an amount not exceeding 33.33% of the Settlement Fund, and reimbursement of expenses in an amount not to exceed \$215,000, excluding costs of notice and administration, subject to any opposition thereto, and determination by the Court. All such amounts as awarded by the Court shall be paid out of the Settlement Fund.

The fees sought by Plaintiffs' Counsel are customary in actions brought on a contingency fee basis, and Plaintiffs' Counsel believe they are justified by the time and effort invested in the prosecution of this Litigation and the result achieved, as well as the time and effort that will be required of Plaintiffs' Counsel prior to final approval of this Settlement. The expense reimbursement sought by Plaintiffs' Counsel consists of expenses actually incurred in the prosecution of this Litigation to date.

X. THE SETTLEMENT HEARING

IF YOU DO NOT WISH TO OBJECT TO THE PROPOSED SETTLEMENT, PLAN OF ALLOCATION OR REQUEST FOR ATTORNEYS' FEES AND EXPENSES, YOU NEED NOT APPEAR AT THE HEARING.

Pursuant to an Order of the Court, dated September 13, 2000, the Settlement Hearing with respect to the Settlement will be held at the United States District Courthouse for the District of New Jersey, Clarkson S. Fisher Building, 402 E. State Street, Trenton, New Jersey 08609, at 2:00 p.m., on December 19, 2000, before the Honorable Freda L. Wolfson to determine whether the proposed Settlement is fair, reasonable and adequate and in the best interests of the Class and should be approved by the Court and to determine whether the Stock Portion of the Settlement should be issued pursuant to Section 3(1)(10) of the Securities Act of 1933. At this hearing, the Court will also rule on Plaintiffs' Counsels' application for attorneys' fees and reimbursement of costs and disbursements and Plaintiffs' proposed Plan of Allocation.

Any member of the Class who has not requested exclusion as described above may appear at the Settlement Hearing in person, or through duly authorized counsel of his or her choice, and show cause, if any, why the proposed Settlement, the proposed Plan of Allocation, or the application for attorneys' fees and reimbursement of costs and disbursements should not be approved. However, no such person will be heard and no paper or briefs will be considered unless that person has filed an objection with the Clerk of the United States District Court for the District of New Jersey, Clarkson S. Fisher Building, 402 E. State Street, Trenton, New Jersey 08609, no later than December 4, 2000, showing due proof of service, by hand or first class mail, postage prepaid, on the following persons:

Plaintiffs' Lead Counsel:

ABBEY, GARDY & SQUITIERI, LLP
Stephen J. Fearon, Jr., Esq.
Nicholas H. Gilbo
212 East 39th Street
New York, NY 10016

KAPLAN, KILSHEIMER & FOX, LLP
Frederic S. Fox, Esq.
Joel B. Strauss, Esq.
805 Third Avenue
New York, New York 10022

Defendants' Counsel:

RUSKIN, MOSCOU, EVANS
& FALTISCHEK, P.C.
Christine McInerney, Esq.
170 Old Country Road
Mineola, New York 11501

To object, you must file the following documents: A written objection setting forth the basis of your objections, any supporting memoranda or other papers, documentary proof of membership in the Settlement Class, and a written statement signed by the objector and setting forth (a) the name, address, and telephone number of the objector; (b) the number or amount, and price of shares of Manhattan Bagel common stock purchased by the objector during the Class Period, and the date of each such transaction with proof thereof; and (c) the number and amount and price of Manhattan Bagel shares sold during the Class Period, and the date of each such transaction with the proof thereof. The failure to file in a timely manner may bar the objector from being heard, absent relief from the Court, on any objections, including any objection to the fairness, reasonableness or adequacy of the Settlement, or to the entry of the judgments contemplated by the Settlement.

Any Settlement Class member who wishes to appeal any ruling of the Court as to the fairness of the Settlement, the Plan of Allocation or the award of attorneys' fees and expenses to Plaintiffs' counsel must move to intervene under Rule 24 of the Federal Rules of Civil Procedure.

You may file an objection without having to appear at the Settlement Hearing. Members of the Class who approve of the proposed Settlement do not need to appear at the Settlement Hearing to indicate their approval, although they must file a proof of claim to participate in the Settlement.

ANY CLASS MEMBER WHO DOES NOT OBJECT IN THE MANNER DESCRIBED HEREIN WILL BE DEEMED TO HAVE WAIVED ANY OBJECTION, AND SHALL BE FOREVER FORECLOSED FROM MAKING ANY OBJECTION TO THE PROPOSED SETTLEMENT.

XI. SPECIAL NOTICE TO BROKERS, BANKS AND OTHER NOMINEES

If you, as nominee, purchased Manhattan Bagel common stock on the open market during the Class Period, on behalf of any beneficial owner, you have been directed by order of the Court dated September 13, 2000, to immediately contact the Claims Administrator, Gilardi & Co. LLC, P.O. Box 5100, Larkspur, CA 94977-5100, (800) 447-7657, and either (a) promptly send by mail copies of the Notice and Proof of Claim and Release to the beneficial owners of the securities, providing written confirmation to the Settlement Administrator of such mailing, or (b) provide the Settlement Administrator with the names and addresses of such beneficial owners, in which case the Settlement Administrator will then send copies of the Notice and Proof of Claim and Release to each such person. The Settlement Administrator will provide nominees with additional copies of the Notice and Proof of Claim and Release upon the request of such nominees. You are entitled to reimbursement from the Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Claims Administrator:

Manhattan Bagel Securities Litigation
c/o Gilardi & Co., LLC
Claims Administrator
P.O. Box 5100
Larkspur, California 94977-5100

XII. FURTHER INFORMATION

For a more detailed statement of the matter involved in this Litigation, you are referred to the papers on file in this Litigation, including the Stipulation, which may be inspected during regular business hours at the office of the Clerk of the United States District Court for the District of New Jersey, Clarkson S. Fisher Building, 402 E. State Street, Trenton, New Jersey 08609.

PLEASE DO NOT CALL OR WRITE THE COURT DIRECTLY. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT THE CLAIMS ADMINISTRATOR TOLL-FREE AT (800) 447-7657.

DATED: September 13, 2000

By Order of the United States District
Court for the District of New Jersey