April 2, 2008

Dear Stockholder,

I have been writing to Panera stockholders for a long time — over a decade. The reality is that, taken together, these years have been extraordinarily successful for our company. People who have invested in Panera long term have done very well. The proof is in the over 1000% share price increase – when adjusted for stock splits – in the ten years from December 31, 1996 to December 31, 2007. Our track record is strong.

Still, as I look back over the last 10 years, it is clear that Panera has experienced its share of highs and lows. We have not been immune to years of modest growth and, simply put, 2007 was such a year. Earnings were slightly down in 2007.

To understand 2007, we need to understand 2006. The first quarter of 2006 brought comparable bakery-cafe sales growth of approximately 9%. At that time, we decided to roll out a new pizza-like product called Crispani in an effort to grow our evening business. Based on 18 months of research and testing, we introduced Crispani system wide in late 2006.

As 2006 ended and 2007 began, we saw something we had not anticipated. System wide, our comparable bakery-cafe sales growth was weaker than we expected. Crispani was delivering incremental sales of 2 percent as expected, but overall transactions were actually decreasing in the rest of the business. Thus, our immediate attention quickly turned to transaction growth, which is system-wide comparable bakery-cafe sales growth without the effect of price increases. We decided to rebuild transaction growth through a summer seasonal menu rotation, or celebration, featuring several very successful salads and a renewed focus on the quality of operations.

While we were successful in re-energizing transaction growth, several consequences of that effort emerged. First, Crispani compressed our margins significantly. We knew that Crispani required incremental labor and expected that increased sales resulting from Crispani would offset that labor cost. However, we discovered that we could only maintain increased sales when we utilized most, if not all, of our in-store customer communications to make our visitors aware of Crispani's presence on the menu. However, we also needed those in-store communication resources to build excitement for our summer celebration. After careful consideration, we choose to sacrifice Crispani sales and Crispani profitability as we refocused on transaction growth in our lunch business in summer 2007.

In addition, in the face of a weakened consumer environment and our own weak transaction growth in the first and second quarters of 2007, we chose to hold off on the price increase that we typically take in August of each year (even though we knew our costs were up). This decision lead to further compressed margins. And compressed margins, in turn, lead to weaker returns on new bakery-cafes.

As we look back, some positive consequences of our decisions in early 2007 also are clear. Notably, we maintained transaction growth despite the difficultly others in our industry experienced (I would hate to be writing you a letter today explaining why our transactions have decreased as so many of my fellow food industry CEOs are doing). Panera has, in fact, seen positive transaction growth in 10 of the last 12 quarters in company-owned bakery-cafes, including 3 percent growth in the third quarter of 2007. I credit this success largely to our continued focus on transaction growth, innovative products (such as the summer salads) and operational excellence.

Let me also note that we opened 169 bakery-cafes in 2007, 89 of which were company-owned and 80 of which were franchise-operated. We finished the year with 1,230 bakery-cafes open in 40 states (532 company-owned and 698 franchise-operated).

With an understanding of the many forces affecting us, we sat down in the fall of 2007 and took a hard look inward. We knew we needed to build off our strengths and address areas of weakness, all in an effort to re-engage our record of performance. The plan we developed focused on what has always worked so well for Panera — concept differentiation as the means to drive transactions. In other words, we need to have a concept that people are willing to walk across the street and past competitors to reach. But we also understood that, in order to continue to make investments to drive long term differentiation, we needed to re-build our credibility. Thus, we created a plan that focused on improving margins while maintaining transactions and strengthening return on new bakery-cafes.

As this plan has become central to our efforts, let me review the status of that plan with you.

Improve Margins

The first prong in our 2008 plan is to improve margins. In order to do so, we recognized we must focus on growing gross profit per transaction year-over-year. To that end, we began building a Category Management function last fall. This team has been focused on effectively executing a high/low pricing strategy, redefining our menu structure and utilizing our associates to change consumer behavior – all with the mission of increasing gross profit per transaction.

The manifestation of that work was a retail price increase of approximately 2.5 percent and menu restructuring in November 2007. This initiative was rigorously tested and preliminary results demonstrated that we would be able to take these increases with no noticeable degradation in transaction growth. Our team has identified several additional ways to increase gross profit per transaction without diminishing our value perception. As such, we implemented another retail price increase of approximately 2.6 percent in early April 2008 and we will be testing additional Category Management initiatives for the remainder of 2008.

We also made the hard decision to remove Crispani from our menu in January 2008. We expect that the removal of Crispani will allow us to eliminate labor costs that represent approximately 1 percent of sales per bakery-cafe per week on a run rate basis. We also expect negligible impact on sales. Thus the removal of Crispani should be margin and profit positive. Simply put, though we deeply believe in the Crispani product, our patience for the level of investment needed to change deeply-held consumer behavior was less in this time of compressed margins.

We are also looking to impact margin through a renewed focus on new bakery-cafe productivity and Return on Invested Capital, or ROIC. As margins compressed across all bakery-cafes, the sales needed to meet our ROIC targets went up. We have reviewed our 2008 and 2009 development plans for company-owned bakery-cafes in the context of the lower margins we ran in 2007 and concluded that a number of bakery-cafes we hoped to develop no longer met our ROIC hurdle. As a result, we chose not to open certain planned bakery-cafes and to moderate our growth.

Let me mention one other significant issue that affects our 2008 outlook: the price of wheat. By February 2008, the all-in cost of wheat (including the cost of the wheat futures and the basis paid to the grain elevators) for the full year was up approximately 140 percent over the prior year. Much of our planning focus for 2008 has been on deciding when to buy our wheat and how to offset the hyperinflation we have been experiencing in wheat through retail and dough transfer price increases.

The good news is that by January 2008 we had contracts to buy all our wheat for the year at an all-in cost of $14 per bushel. By February 4, 2008, the all-in cost of wheat traded over $20 and then hit $24 per bushel by February 13, 2008 on the Minneapolis Grain Exchange. To give you some understanding of the magnitude of the impact of wheat prices, you should know that, without price increases by us, the full year incremental wheat cost in 2008 vs. 2007 would impact the company by approximately $27 million, or about 55 cents per diluted share.

Know that we intend to increase dough transfer prices to cover the higher cost of wheat. However, our ability to do so is complicated by the contractual relationships we have with our franchisees, which require us to take retail price increases first and then give franchisees 45 days notice before affecting a dough transfer price increase. As a result, it will take us several quarters before we will be able to fully offset our increased costs for wheat. We have raised our dough transfer prices in both the first and second quarters of 2008, but this will not be enough to completely offset the increased cost of the wheat we are purchasing. By the third quarter, we expect to have sufficient dough transfer price increases in place to offset the elevated cost of wheat that we have contracted to buy during the second half of 2008. We expect the net impact of the hyperinflation in the wheat markets will make 2008 earnings growth choppier than what we normally experience. Overall, however, we do not currently expect wheat prices to materially adversely affect earnings growth in 2008.

Grow Transactions

The second prong in our 2008 plan calls for counter-acting the negative consumer headwinds so many others in the food and retail industries are experiencing by building transaction growth through a number of initiatives.

The first tactical action to grow transactions is the system-wide rollout of our breakfast sandwiches. These new items fit naturally in our product line without increasing fixed labor costs. Let me describe them for you. We crack fresh eggs in the cafe and add other high-quality ingredients like Vermont white cheddar cheese, all-natural sausage and applewood smoked bacon. We then serve it on our freshly-baked ciabatta bread. These sandwiches are made by bakers, nor microwaves. They belong in Panera. We invite you to visit your neighborhood Panera and experience them. We know you will be pleased.

Additionally, we plan to increase our expenditures on billboard and radio advertisements significantly in 2008. As one of the least advertising intensive companies in our industry, we believe there is a real opportunity to use media to build awareness and transactions. Over the last two years, we have done extensive research and tested various media and, based on this research and testing, we will initiate a more intense media effort in 2008 in those markets that we have identified as being most responsive to media (about half).

We also plan to use our Via Panera catering program to build transactions in 2008. If executed properly — with an excellent customer experience and strategic pricing — we believe we have a very powerful growth vehicle in our hands. Count on us to do just that.

And, as ever, we are focused on quality of operations to build transactions — this means speed, accuracy and a further improved customer experience to increase differentiation.

It is clear to us that our growth in transactions in 2007 was a response to the differentiated experience we offered customers. This is the key to the future and you can expect more of this from us.

The 2007 Sandelman and Associates survey is indicative of the strength of our concept and the experience we offer customers. The survey, considered the definitive measure of customer satisfaction and concept acceptance in our industry, ranked 138 concepts by polling 84,000 customers in 70 major U.S. markets. I am pleased to say that Panera ranked number 2 among all 138 chains. In fact, 57 percent of our customers ranked us excellent on their last visit. And Panera posted “best in industry” in multiple categories, including quality of ingredients, variety of menu items and restaurant cleanliness.

Let me also note that we began 2008 by strengthening our Board of Directors with the selection of Dominic Colasacco as our Lead Independent Director and the appointments of W. Austin Ligon and Charles J. Chapman III as new members of our Board. Dom has been a leader on our Board for the last eight years and is the President and Chief Executive Officer of Boston Trust and Investment Management. Austin is the co-founder and former President and CEO of CarMax, Inc. Chuck is the Chief Operating Officer of Berkshire Hathaway’s American Dairy Queen Corporation. These changes bring additional strength, new perspectives and valued experience to our Board.

To conclude, I’d like to be very direct. Panera is a powerful concept. The Sandelman survey, our industry-leading average weekly sales in more than 1,200 locations and the fact that over $1 billion in stockholder value has been created over the last decade all speak to that fact. At the same time, we realize that your support of Panera in 2007 may have cost you something. It is to you, the stockholder who has believed in us and invested in us, to whom we feel the greatest sense of responsibility. And we recognize our obligation to deliver results for you that fuel increased stockholder value.

I want to take this opportunity to thank all of you who have stuck with us in a tough year for our industry and our Company. Your support, combined with that of our Board, our Support Center teams, our operators, our joint venture partners and our franchisees, really does mean something to us. Know that we will do all in our power to deliver for you in 2008 and beyond.

All my best,

Ronald M. Shaich
Chairman and Chief Executive Officer

Matters discussed in this annual report to stockholders, including any discussion or impact, express or implied, on the Company's anticipated growth, operating results, and future earnings per share, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words "believe", "positioned", "estimate", "project", "target", "continue", "intend", "expect", "future", "anticipates", and similar expressions. All forward-looking statements included in this release are made only as of the date of this release, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that occur or which we hereafter become aware, after that date. Forward-looking information expresses management's present belief, expectations, or intentions regarding the Company's future performance. The Company's actual results could differ materially from those set forth in the forward-looking statements due to known and unknown risks and uncertainties and could be negatively impacted by a number of factors. These factors include, but are not limited to, the following: inability to execute our growth strategy, including, among other things, variations in the number, timing, and successful nature of Company-owned and franchise-operated bakery-cafe openings and continued successful operation of bakery-cafes; failure to comply with government regulations; loss of a member of senior management; inability to recruit qualified personnel; failure or inability to protect our brand, trademarks, or other proprietary rights; competition; rising insurance costs; disruption in our supply chain or increases in ingredient, product, or other supply costs; disruptions or supply issues in our fresh dough facilities; health concerns about the consumption of certain products; complaints and litigation; risks associated with the acquisition of franchise-operated bakery-cafes; other factors, some of which may be beyond our control, effecting our operating results; and other factors that may effect restaurant owners or retailers in general. These and other risks are discussed from time to time in the Company's SEC reports, including its Form 10-K for the year ended December 25, 2007 and its quarterly reports on Form 10-Q.