April 13, 2009

Dear Stockholder,

For many U.S. companies, 2008 was a year in which the economy collapsed and the stock market fell more than 30 percent. For Panera though, 2008 was a great year – one of the strongest in our history. We're proud to have met or exceeded our earnings targets in each quarter of 2008. Our stock was up 50 percent in 2008, which made us the best performing restaurant stock of 2008 and the second best performing stock in the Russell 1000 Index.

But we all know there are many one-year-wonders in our industry. I believe the real test of a company is its ability to generate shareholder value over the long-term. Thus, I am pleased to be able to report that Panera has also been the best performing stock in the restaurant industry (with a market capitalization of $200 million or greater) when measured over the last decade (10 years ending December 31, 2008). In fact, in those 10 years, our stock has appreciated at an annualized growth rate north of 30% – more than three times better than the next best performing restaurant stock. It is also worth noting that we have been the tenth best performing stock in the entire Russell 1000 Index these past ten years.

So with this kind of track record, how do we go forward? How do we keep the momentum of the last decade going into 2009 and well beyond?

The first thing we must acknowledge is that the Panera of today is not the Panera of a decade ago. Ten years ago, we were a small Midwestern company growing at an exceptional rate relative to our size. Today, we are a national brand with 1,325 company-owned and franchise-operated bakery-cafes and one of the largest food service companies in the United States.

In my view, this size and scale represents as much risk as opportunity for a company like Panera. Why? Panera grew and prospered because it represented a better alternative to its guests. It was "special" enough that consumers went out of their way to visit Panera. Typically, size is the enemy of "special." In fact, too often, in many companies size is the forerunner to mediocrity. The reason for this is that size and scale are typically used simply to take cost out of the value chain. Eventually, optimization and efficiency alone lead to a poorer guest experience, a lack of "being special" and ultimately transaction falloff. And transaction falloff would be the long-term kiss of death for a company like Panera.

Thus, in 2009 and beyond, we are committed to using our scale to further long-term concept differentiation. To us that means not simply cost reduction, but sourcing and equipment development that allows us to do things for our customer experience that no one else in our competitive set has been able to do to date. And to us that means utilizing our scale to execute a more aggressive marketing strategy. We are not interested in marketing to simply build name recognition and awareness. Rather, we will use our marketing to build deeper relationships with our target customers. In sum, our intent is to use our size and scale to improve our competitive position.

I'd also like to comment on another issue that all companies are thinking about in 2009 — the recession. Despite our success in 2008, we need to recognize that Panera faces the same pressures as every other company in the country. Our experience in 2008 may indicate that Panera may be recession resistant, but it is not recession proof. So, how does a growth company like Panera deal with the "economic collapse" and ensure we come out of the recession with a stronger competitive position?

We must start by understanding our relative strength in this environment. We have strong and growing cash flow and are anchored by a debt free balance sheet. Our comparable bakery-cafe sales continue to be among the best in the industry. So the real question now becomes: how do we capitalize on these relative strengths to drive competitive advantage during the most difficult economic climate of our professional lives?

First, we must remain committed to strengthening our competitive position (even as most competitors diminish theirs with smaller portions, cut backs in quality and reductions in staffing). If there is ever a time to drive competitive advantage, it is now. Panera does not define value the same way that other companies do. While other companies are heavily discounting to lure customers back, we believe the opportunity lies in offering a better "total experience" to our guests. So while the rest of the industry competes to offer the cheapest $3.99 salad, we will focus on delivering a $12.00 salad for $5.99 to $7.99. That is value the Panera way and it gets to the core of our value proposition.

Second, we will continue to search for new ways to generate new transactions to offset any modest falloff we may experience. Our successful rollout of our breakfast sandwiches is a good example of such an effort.

Third, in the midst of this economic crisis, we will continue to build bakery-cafes we expect to be highly productive. While many competitors are closing stores and pulling back on development in the face of the recession, we will continue to build new bakery-cafes. Real estate is priced on a spot market basis but locked in for 10, 15 or more years. Indeed some of the most successful bakery-cafes in the history of Panera have been built during prior recessions and I fully expect some of our best bakery-cafes will be built during this "economic collapse" as well.

Finally, we will use this recession to strengthen our organizational capabilities. Many people working for other restaurant concepts and in retail have been ground down by the uncertainty that comes with store closures and staff cutbacks. As a result, they are flocking to strong companies like Panera. In fact, in almost 30 years in business, I have never seen better candidates apply to our company. This is the time to strengthen our organization with people who will be real assets to Panera well into the future.

With that said, I realize that a company's long-term success (and my credibility as a CEO) is built by delivering results year-over-year, quarter-by-quarter. So, what is our plan for 2009?

My answer is more of the same. In 2009, our team will once again be intensely focused on growing gross profit dollars per bakery-cafe by improving gross profit dollars per transaction and holding transaction falloff to a minimum, driving operating leverage and using our capital smartly, all while putting in place the drivers of long-term earnings growth with particular emphasis on impacting competitive advantage. To that end, we are confident we can deliver on our earnings per share target of 15% to 22% growth for 2009.

And how are we going to do that?

To increase gross profit growth and further improve margins, we plan to test add-on initiatives like You Pick Four™, breakfast bakery bundles, bulk baked goods and bread as a gift. We also intend to use our strength at purchasing to limit cost inflation.

To hold transaction falloff to a minimum, we plan to focus on integrated marketing programs similar to our early 2009 breakfast re-launch. We intend to continue to use radio to explain Panera's points of difference, launch our first formal test of TV and pilot a new loyalty program. We also intend to bring new energy to our retail bread program and catering. You will see us focus on differentiation through innovative salads utilizing new procedures to further improve lettuce quality, the testing of a new way to make Panini's fresh to order, materially improved renditions of several Panera classics, and ever-improving operations, speed of service and accuracy.

To use our capital smartly, you can expect to see continued discipline designed to ensure the capital we deploy delivers an acceptable return. You will also see us testing a smaller unit that offers the potential for a material reduction in our investment per bakery-cafe.

Let me conclude with this observation. Panera is a powerful concept. Our industry-leading average weekly sales and the fact that over $1.5 billion in stockholder value has been created over the last decade speak to that fact. Most importantly, every survey we see indicates the Panera concept continues to resonate strongly with our guests. That is why, in 2009, we are committed to using our size and scale to enhance the Panera experience for our guests and using the recession as an opportunity to leap frog competitors by improving our competitive position. We are also committed to maintaining your confidence in us by delivering earnings per share growth in 2009 consistent with our targeted range of 15% to 22%.

I want to take this opportunity to thank all of you who have believed in our company and our management team during the ups and downs of the last decade. Your support, combined with the wise counsel of our Board, our Support Center teams, our operators and our franchisees, really has been key to our success. Know that we will do all in our power to fulfill the potential of the Panera brand and deliver for you in 2009 and beyond.

All my best,

Ron Shaich

Ronald M. Shaich
Chairman and Chief Executive Officer