



April 18, 2011

Dear Shareholder,

I am very pleased to report that 2010 was another very good year for Panera. Our Earnings Per Share (EPS) grew 30% in 2010. This marks the third consecutive year that our EPS has grown 20% or greater. No one would debate how difficult the economic environment has been over the last three years. We are proud to tell you that our shareholder value (as measured by our market capitalization) has increased by \$1.9 billion on a cumulative basis over the past three years.

The key to achieving these results has been our continued investment in the quality of our customers' experience to drive differentiation and competitive advantage. The investments that we have made over the last few years drove our results in 2010 and we believe the investments that we made in 2010 will be the basis for our continued success in 2011 and beyond.

Our 2010 system-wide comparable bakery-cafe sales increased 7.9%. On a two year basis, our comparable bakery-cafe sales increased 10.1%. We believe these results put us among the very best in our industry and are a product of the investments that we have made in the quality of our food; increased marketing expenditures; the rollout of our MyPanera™ loyalty program; growth of our catering business and finally the quality of our operations.

Menu Development

For the last several years, we have utilized the talents of our food development group and the size and scale of our supply chain to drive innovation and differentiation of our food offerings through quality. This has driven the success of our signature salad and sandwich categories as well as the establishment of our frozen drink and smoothie category. We have also been able to broaden our soup lineup with the addition of Mac & Cheese in 2009 and a hearty Steak Chili in 2010.

An investment that we made in 2010 that we believe will benefit us in 2011 and beyond was in the development and rollout of our second generation Panini grills. We worked with a manufacturer for more than 2 years to develop and test this customized grill which heats more evenly throughout the sandwich and allows us to make each Panini to order. We expect the new grill, in concert with the addition of steak to our menu, will drive our hot sandwich platform in 2011 and beyond.

Marketing

In 2010, we continued our multi-year initiative to refine our media and advertising strategy. Although we increased our media spending in 2010, we still spend at a relatively low level (1.1% of system-wide sales in direct media expenses in 2010) compared to many national restaurant companies that spend in the 3% - 5% range. We made progress this past year in improving our messaging to capture the points of difference and the soul of the Panera concept. We also made progress in learning the optimum media mix by market. Perhaps the most important investment that we made in the Marketing area in the past 18 months was in our people. We have added a new Chief Marketing Officer and a Vice President of Marketing. Both of these individuals have a great deal of consumer marketing experience and are playing an important role in crafting our long-term marketing strategy.

In 2011, we will modestly increase our media spending and continue on our path of increasing the quality awareness of our targeted customers and deepening relationships with our most engaged customers. We believe that as we are early on in our media spending program, we will be able to carefully increase our spending while generating a positive payback on our investment for several years to come.

MyPanera™ Loyalty Program

The rollout of our MyPanera™ Loyalty Program was perhaps the most significant organizational investment we made in 2010. This program was rolled out system-wide by the end of November and we already had more than 4.5 million registered card members by the end of the year. This program is designed to surprise and delight our guests through a combination of rewards and unique experiences that only Panera can provide resulting in deeper relationships with our most loyal customers.

Although this program has already resulted in increased purchase frequency of our members, the primary purpose of the program is to capture the actual purchasing behavior of our customers which will allow us to get as close to one to one marketing with our customers as possible.

Catering Growth

In 2010, we continued to make investments in building the foundation for our long-term success in the catering business. We strengthened our sales force through increased staffing as well as the development of training programs and other tools. These investments were a key driver in our 26% sales increase over the prior year. In 2010, we also invested substantial resources in developing our on-line catering system, which is currently in the process of being rolled out across our system.

For many years, we have concentrated on becoming the best competitive alternative for our eat in customers at breakfast, lunch, chill periods and dinner. We are now focusing on how we provide the same high quality Panera experience to our off premise customers. We believe that continued development of our off premise solutions provides us opportunity for significant growth in the future.

Quality of Operations

2010 brought a lot of exciting innovation to our bakery-cafes as we continued investing in our customers' overall experience. One of the things we are most proud of is at the same time a number of new initiatives were implemented by our operators, our key operating metrics (customer satisfaction, speed of service, order accuracy and turnover) improved in 2010. We continue to believe that one of the cornerstones of our operating success has been our joint venture program. This program is designed to treat our key operators like owners of the business. At year-end, nearly all of our Regional Operators and approximately 50% of our General Managers have earned their way into participating in this program.

Capital Utilization

Another of the great strengths of our company is our Balance Sheet and the cash flow that we generate each year. We ended 2010 with \$229 million of cash on our Balance Sheet and no debt. We generated approximately \$238 million of cash flow from operations in 2010.

As we have often said, the best use of excess capital for us is to build new high return on investment (ROI) Panera Bread bakery-cafes. In 2010, we opened 76 new bakery-cafes system-wide. Our Company-owned new unit average weekly sales (AWS) volume was \$40,808 for the full year 2010. This represented the highest new unit AWS in our Company's history. We believe these sales volumes are first and foremost a reflection of how well Panera is resonating with our customers as we continue to build on our national footprint. Additionally, we believe that the discipline that our Real Estate Group has brought to site selection over the last few years has continued to pay dividends for us.

Utilizing our capital wisely is a key focus of management and our Board of Directors. In 2010, we were able to acquire 37 bakery-cafes from our franchisee in the New Jersey market at a multiple which we expect will make this transaction accretive to our earnings in 2011 and beyond. Also, under our Board approved share repurchase program, we repurchased approximately \$150 million of our shares at an average price of approximately \$79 per share. We believe these uses of capital will provide a good long-term return for our shareholders.

Transition

I am also pleased to report that the transition of Ron Shaich to the role of Executive Chairman and me to Chief Executive Officer has gone very smoothly. Ron has been my friend and mentor for more than 13 years and he continues to play an active strategic role at Panera. Ron primarily focuses on how we can continue to be the best competitive alternative in the businesses we serve. The fact that the transition has gone so smoothly is a reflection of the quality of Ron's vision that Panera has operated by for the past two decades and the passion and commitment of our Board of Directors, our Leadership Team, our Franchisees and the almost 60,000 associates that work at Panera system-wide. I want to thank all of them and all of you, our shareholders, for the support that you have shown Ron, me and Panera during this transition.

Future

We believe that our model of increasing our store profit through investing in the quality of our customers' experience to drive differentiation and competitive advantage; unit growth; driving operating leverage and deploying our excess capital in high ROI investments positions us well to continue to deliver our targeted long-term EPS growth rate of 15% - 20% annually.

Sincerely,

A handwritten signature in black ink that reads "Bill Moreton". The signature is written in a cursive, slightly slanted style.

William W. Moreton

President and Chief Executive Officer