

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

DOUGHTIES FOODS INC

CIK: **29850** | IRS No.: **540903892** | State of Incorporation: **VA** | Fiscal Year End: **1231**
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SIC: **5140** Groceries & related products

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 26, 1998

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-7166

DOUGHTIE'S FOODS, INC.
(Exact name of Registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-0903892
(I.R.S. employer
identification number)

2410 WESLEY STREET, PORTSMOUTH, VIRGINIA 23707
(Address of principal executive offices)

Registrant's telephone number, including area code: (757) 393-6007

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$1.00
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of voting stock held by non-affiliates of the registrant

as of February 26, 1999 (See Note, Item 5, for explanation of calculation):

\$ 8,383,784

Indicate the number of shares of Common Stock outstanding as of February 26, 1999:

1,495,023

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I.

ITEM 1. BUSINESS

General

Doughtie's Foods, Inc. (the "Company") was incorporated in Virginia in November 1971 to engage in the sale and distribution of a wide variety of meat and seafood products and other food items. Many of the meat and seafood products sold by the Company were historically manufactured, processed or produced by it, while other food items sold by the Company, such as fruits, vegetables, condiments, and seasonings, have always been purchased by the Company from other sources. Since completion of the sale in February 1997 of certain assets related to the Company's manufacture of barbecue and chili products and the sale of the deli-meats business in April 1997 (see below: Material Transactions), the Company's business has consisted solely of distributing food products to commercial and institutional customers, including supermarkets, restaurants, cafeterias, independent food distributors, schools, hospitals, and other public and private facilities. The Company's marketing area covers the central, northern, and eastern portions of Virginia, as well as Maryland, Washington, DC, portions of North Carolina, and small areas of Delaware. Although the Company is no longer engaged in the manufacture of food products, it continues to distribute its traditional "Doughtie's" label products pursuant to product supply agreements with the respective buyers of the manufacturing business. (See below PART I, ITEM 1, BUSINESS, Products and Services.)

Recent Developments

In January 1999, the Company announced that in response to certain recent inquiries by outside third parties, the Board of Directors of the Company had engaged the investment banking firm of Mann, Armistead & Epperson, Ltd., Richmond, Virginia, for the purpose of attempting to maximize shareholder value, and had directed Mann, Armistead & Epperson, Ltd. to examine the Company's options, including the possible sale of the Company.

On February 8, 1999, the Company and SYSCO Corporation (SYSCO) signed a Letter of Intent whereby a subsidiary of SYSCO and the Company will merge. Under the Letter of Intent, the stockholders of the Company will receive \$17 per share in cash or shares of SYSCO common stock subject to adjustments under certain circumstances. Consummation of the merger is subject to, among other things, negotiation of a definitive Merger Agreement and approval by the Company's shareholders.

Material Transactions

In February 1997, the Company sold the assets of its manufacturing division's barbecue and chili business for approximately \$840,000 in cash. Barbecue and chili sales accounted for less than 5% of consolidated 1996 sales volume. The net pretax gain on the sale was approximately \$50,000.

In April 1997, the Company sold the assets of its manufacturing division's deli meats business for approximately \$486,000. The terms of the sale were a \$286,000 cash down payment with the \$200,000 balance in the form of secured note. Deli meat sales accounted for less than 5% of consolidated 1996 sales volume. The net pretax gain on the sale was approximately \$140,000. Upon completion of the sales in February and April of 1997, the Company ceased its manufacturing operations.

In September 1995, the Company sold substantially all of the assets of its Home Food Service operation (the "Home Food Service") to Value Added Food Services, Inc., a Maryland corporation ("VAFS"), and ceased operations in the consumer portion of its business due to unprofitability. Vernon W. Mules, Chairman of the Board of the Company, and his wife are the principal stockholders of VAFS. All finance receivables, inventory, delivery equipment, processing equipment and office equipment were sold. The total sale price was \$1,154,000 with a \$115,000 cash down payment and the balance of \$1,039,000 in the form of a secured note, which was paid in full in November 1996. The assets were sold primarily at net book value, except for finance receivables, which were discounted by ten percent. The net pretax loss on the sale, including abandoned assets and other write-offs, was approximately \$96,000.

In August 1994, the Company entered into a joint venture with Loetitia Adam-St. James and Chris L. St. James (collectively, the "St. James"), trading as Thunder Bay Gourmet Foods, who manufactured and sold a line of specialty gourmet food products (the "Thunder Bay Line"). Under the terms of the joint venture agreement, (i) the Company and the St. James formed TWB Gourmet Foods, Inc., a Virginia corporation ("TWB"), (ii) TWB acquired substantially all of the assets of Thunder Bay Gourmet Foods, and (iii) the St. James and TWB entered into a license agreement granting TWB a perpetual, exclusive license and right to manufacture, sell, market, advertise, promote and exploit the Thunder Bay Line, and to use the related trademarks, including "Thunder Bay," worldwide. Until September 1996, the Company owned seventy percent of the outstanding capital stock of TWB, and the remaining thirty percent of TWB was owned by the St. James, who managed the business. During the fourth quarter of 1995, the Company determined to exit the gourmet foods business as TWB had incurred substantial net operating losses since its inception. Accordingly, the Company incurred a \$763,000 pretax charge in the fourth quarter to reduce the carrying value of TWB's fixed assets and inventories to estimated net realizable value and to provide for other costs to exit this business. On September 6, 1996, the Company sold certain assets of TWB and discontinued manufacturing of the associated gourmet food products. The terms of the sale were a \$30,000 cash down payment, \$20,000 assigned accounts receivable and \$137,000 of free trade credit from the buyer for a total sale price of \$187,000. No gain or loss was recognized as a result of this sales transaction. In conjunction with the transaction, the St. James surrendered their stock in TWB and are no longer affiliated with TWB, which is now wholly owned by the Company.

On August 28, 1996, the Company merged its Dutterer's of Manchester Corporation subsidiary into TWB Gourmet Foods, Inc. The purpose of the merger was to simplify corporate structure.

Products and Services -----

The Company maintains distribution centers in Portsmouth and Norfolk, Virginia, from which it handles the Company's commercial and institutional food sales. The Company offers to its customers a broad range of food items including meat products, frozen, refrigerated, canned, and dry items in the seafood, fruit, vegetable, and other lines. Most items needed by such customers for the operation of their business are offered by the Company, including eggs, produce, staples such as flour and sugar, restaurant supplies, and a limited amount of cooking and processing equipment. Availability of such items is generally good.

The Company has no material long-term contract with respect to the supply of any of such items, except (i) pursuant to the Product Supply Agreement dated as of February 28, 1997, between the Company and The Smithfield Ham and Products Company, Incorporated ("Smithfield"), the Company agreed to purchase from Smithfield its requirements of barbecue and chili products for a period of five years and (ii) pursuant to the Product Supply Agreement dated as of April 14, 1997, between the Company and Coddle Roasted Meats, Inc. ("Coddle"), the Company agreed to purchase from Coddle's its requirements of delicatessen-style meat products for a period of five years. Many of these products are packaged and marketed under the registered trade name and service mark "Doughtie's."

Registration covering this mark remains in force twenty years from the date of registration and may be renewed for periods of twenty years.

Sales of products are made through a system of advance salespersons who take orders for subsequent delivery. A fleet of approximately 36 trucks and 10 trailers is employed in the delivery phase of the wholesale operations. The Company experiences increased sales to customers in resort areas and parks during the summer months as a result of increased patronage of these businesses. The decline in sales to such customers during the winter months is partially offset by sales to schools.

Prior to the sale of the manufacturing division, the Portsmouth facility was also involved in the manufacture of pork and beef barbecue, hot dog sauce, meat loaf, chili and other cooked meat products. The Company's subsidiary, TWB, also manufactured and sold a line of specialty gourmet food products until that portion of the business was sold in September 1996. (See above PART I, Item 1, BUSINESS, Material Transactions.)

Customers

During 1998, 1997 and 1996, the Company recorded sales under a contract with the Department of Defense aggregating approximately 13.2%, 15.8% and 11.5%, respectively, of net sales. The current contract with the Department of Defense expires in February 2000. The Company had receivables from one of its commercial customers representing 12.5% and 13.1% of trade accounts receivable at December 26, 1998 and December 27, 1997, respectively.

Competition

The Company's commercial and institutional food distribution operations face substantial competition from other food distributors in the region. There are many companies engaged in one or more of the same areas of the industry as the Company, some of which are national companies having greater resources and sales than the Company. There are also a large number of regional and local companies that compete with the Company. Within these areas of the food industry, competition is based primarily upon price, service, and product quality. The Company believes it is reasonably competitive with respect to all of these factors.

Backlog

Due to the nature of its business, the Company does not have a material amount of backlog at any given time.

Regulation

The Company is subject to various statutes, such as the Federal Food, Drug and Cosmetic Act, the Consumer Product Safety Act, the Occupational Safety and Health Act, and various consumer credit acts, regulating ingredients, packaging, general working conditions for employees, vehicles, credit, and other matters. The Company has not experienced any unusual difficulty in complying with such regulations.

Although the Company has never experienced a fuel shortage, its operations could be adversely affected if sufficient quantities of diesel or other fuels could not be obtained due to shortages or for other reasons.

The Company has not experienced any unusual difficulty in complying with environmental regulations at any of its facilities. The Portsmouth facility is subject to open air burning restrictions which require refuse to be hauled off the premises rather than burned.

Employees

As of December 26, 1998, the Company had approximately 211 employees. Approximately 33 of these employees working at the Company's Portsmouth and Norfolk facilities are members of the Bakery, Confectionery and Tobacco Workers' International Union, AFL-CIO, under a contract which expires in November, 2001.

Executive Officers

STEVEN C. HOUFEK, 50, is the Company's President and Chief Executive Officer. Mr. Houfek has been President of the Company since August 1992 and was named Chief Executive Officer in May 1994. Prior to May 1992, Mr. Houfek held various management positions with the Company, including Executive Vice President from May 1987 to August 1992.

VERNON W. MULES, 69, is Chairman of the Board of Directors of the Company. Prior to May 1994, Mr. Mules served as the Company's Chief Executive Officer.

MARION S. WHITFIELD, JR., 53, has served as Senior Vice President of the Company since May 1987. He served as Vice President of the Company from May 1983 until May 1987.

MICHAEL S. LAROCK, 35, joined the Company in November 1994 and has served as the Company's Treasurer and Secretary since that time. Prior to November 1994, Mr. LaRock was an accountant with Price Waterhouse LLP in Norfolk, Virginia.

THOMAS G. BROWN, 55, has served as Vice President - Purchasing since February 1994. Prior to that time, he was Director of Purchasing.

WILLIAM E. MOODY, JR., 49, has been Vice President - Sales since February 1994. Prior to that time, he was Sales Manager.

JERRY D. NIXON, 42, was elected Vice President - Government Contract Operations, in February 1996. Mr. Nixon served as Vice President - Operations from February 1994 until February 1996. Prior to that time, Mr. Nixon was Operations Manager.

WILLIAM G. RATLIFF, 43, was elected Vice President - Operations in February 1996. Since joining the Company in October 1994, Mr. Ratliff served as Project Manager. Prior to October 1994, Mr. Ratliff was a United States Navy Supply Corps Officer.

ROBERT F. HORTON, 31, was elected Vice President - Business Development in February 1996. Mr. Horton served as a district sales manager since October 1995. Prior to that time, he was Program Accounts Manager.

ITEM 2. PROPERTIES

The principal facilities of the Company and its subsidiary are listed below. Except as noted, all are fully utilized by the Company and are adequate for the Company's purposes and needs.

(a) The Company owns approximately 10.2 acres of land in Portsmouth, Virginia, on which are located a building complex, including cooler, freezer, and dry storage warehousing, complete truck docking facilities, a garage, and the Company's principal executive offices. The Company's three loans are secured by a lien on this property.

(b) The Company's wholly-owned subsidiary, TWB Gourmet Foods, Inc., owns approximately 4.5 acres of land in Manchester, Maryland, on which are located a 20,000 square foot packing house with a stock yard and sewage plant. An adjacent 45-acre farm is also owned by the Subsidiary. In December, 1991, the Company transferred the operations of its Manchester facility to its Portsmouth, Virginia plant. The Company's three loans are secured by a lien on this property.

(c) The Company leases approximately 15,000 square feet of warehouse space in Portsmouth, Virginia. This property is leased on a month to month basis with monthly rental payments of \$2,275.

(d) The Company leases approximately 36,800 square feet of freezer, cooler, warehouse and office space in a warehouse building in Norfolk, Virginia, under a lease which calls for monthly rental payments of \$20,000. This lease expires in February 2000.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market and Price Information

The Company's common stock, \$1.00 par value (the "Common Stock"), is traded on the Nasdaq Stock Market. The following table provides the high and low bid quotations with respect to shares of the Common Stock for the periods indicated, as reported by the Dow Jones Historical Stock Quote Reporter Service and Nasdaq. These amounts have been adjusted retroactively to reflect the 50% stock split paid on January 12, 1998, to stockholders of record on December 12, 1997.

	First Quarter		Second Quarter	
	High	Low	High	Low
1997	3.583	2.667	3.667	2.500
1998	8.750	6.125	8.500	7.125
	Third Quarter		Fourth Quarter	
	High	Low	High	Low
1997	5.083	3.583	7.500	4.500
1998	7.875	4.875	8.250	6.000

The foregoing quotations of high and low bid prices, as adjusted, represent prices between dealers and do not include retail mark-up, mark-down, or commissions. They do not necessarily represent actual transactions. The highest bid on each day is reported.

Number of Stockholders

As of February 26, 1999, there were 232 record holders of the Common Stock.

Dividends

The cash dividends declared per common share by quarter for the two most recent fiscal years are summarized below. These amounts have been adjusted retroactively to reflect the 50% stock split paid on January 12, 1998, to stockholders of record on December 12, 1997.

	1998	1997
First Quarter	\$.03	\$.027
Second Quarter	.03	.027
Third Quarter	.03	.027
Fourth Quarter	.03	.026

Total	\$.12	\$.107
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Management presently expects to continue declaring quarterly cash dividends if it proves possible to do so and if the merger with a subsidiary of SYSCO is not consummated (PART I, ITEM 1, Recent Developments).

NOTE: The aggregate market value of voting stock held by 216 non-affiliates of the registrant as of February 26, 1999, shown on the cover page was calculated as follows: The number of shares beneficially owned by the officers and directors of the Company as a group or by members of the Doughtie family was subtracted from 1,495,023, the total number of shares outstanding on that date. The resulting figure was then multiplied by \$ 14.50, the average of the bid and asked prices of the Company's stock in the Nasdaq SmallCap Market on that date. The foregoing calculation should not be deemed an admission that any of the officers and directors of the Company or any of the members of the Doughtie family are "affiliates."

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>

<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 87,194,488	\$ 85,233,420	\$ 80,632,688	\$ 76,585,835	\$ 73,368,742
Net income (loss)	\$ 1,196,657	\$ 947,498	\$ 927,820	\$ (1,212,284)	\$ 364,073
Weighted average number of shares outstanding:					
Basic	1,495,023	1,496,085	1,500,468	1,511,652	1,516,845
Diluted	1,496,298	1,496,085	1,500,468	1,511,652	1,516,845
Net earnings (loss) per share:					
Basic	\$.80	\$.63	\$.62	\$ (.80)	\$.24
Diluted	\$.80	\$.63	\$.62	\$ (.80)	\$.24
Cash dividends per share	\$.12	\$.11	\$.11	\$.11	\$.11
Total assets	\$ 15,222,817	\$ 16,444,817	\$ 15,932,286	\$ 16,086,077	\$ 16,797,863
Long-term debt, less current portion	\$ 683,334	\$ 2,737,910	\$ 5,065,000	\$ 6,688,334	\$ 5,031,667
Total stockholders' equity	\$ 9,853,617	\$ 8,836,363	\$ 8,054,907	\$ 7,303,060	\$ 8,700,431
Stockholders' equity per share	\$ 6.59	\$ 5.91	\$ 5.38	\$ 4.86	\$ 5.75

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net sales of the Company increased 2.3% in 1998. For the 1998 fiscal year, the Company reported net sales of \$87.2 million compared to net sales of \$85.2 million in 1997. Sales under a contract with the United States Department of Defense decreased from \$13.5 million in 1997 to \$11.5 million in 1998, which

represented 15.8% and 13.2% of the Company's consolidated revenue, respectively. The volume increases from multi-unit accounts more than offset the reduction in sales to the Department of Defense. There were no significant price changes in 1998.

Net sales of the Company increased 5.7% in 1997. For the 1997 fiscal year, the Company reported net sales of \$85.2 million compared to net sales of \$80.6 million in 1996. Sales under a contract with the United States Department of Defense increased from \$9.3 million in 1996 to \$13.5 million in 1997, which represented 11.5% and 15.8% of the Company's consolidated revenue, respectively. Additional volume increases resulted from new multi-unit accounts obtained during the third quarter. These increases were offset by a reduction in sales caused by the sales of the Company's manufacturing operations. Manufacturing operations represented less than 2% and 8% of sales in 1997 and 1996, respectively.

The Company's gross profit margin (gross profit as a percentage of net sales) decreased slightly from 16.5% in 1997 to 16.2% in 1998. The decline is due to the 1997 disposition of the manufacturing division, which had a higher markup. The Company's gross profit margin increased from 16.3% in 1996 to 16.5% in 1997.

The Company's selling, general and administrative expenses, expressed as a percentage of net sales, decreased to 13.8% in 1998 from 14.5% in 1997. The Company's selling, general and administrative expenses, expressed as a percentage of net sales, decreased slightly to 14.5% in 1997 from 14.8% in 1996.

During 1997, the Company experienced an increase in accounts past due greater than 60 days from approximately 10.6% to 20.8% of accounts receivable and an increase in accounts written off which led to an increase of \$468,000 in bad debt expense for 1997 as compared to 1996 and an increase in the allowance for doubtful accounts at December 27, 1997. Management attributed the increase in past due accounts to inadequate collection efforts and financial difficulties experienced by several customers. Management made administrative changes to address the collection issue, including appointment of a new credit manager in March 1998. During 1998, the Company's collections have improved and accounts past due greater than 60 days have decreased to 15.2%. In addition, accounts written off have decreased from \$387,000 in 1997 to \$149,000 in 1998. As a result of improved customer credit quality during the fourth quarter of 1998, including collection of amounts previously considered doubtful, the allowance for doubtful accounts was reduced to \$360,000 as compared to \$628,000 at December 27, 1997 and bad debt expense for the year ended December 26, 1998 decreased \$790,000, as compared to 1997.

The decline in selling, general and administrative expense as a percentage of sales in both 1998 and 1997 also reflects the increase in sales without a corresponding increase in expenses.

Interest expense was \$162,000 in 1998 compared to \$242,000 in 1997 and \$469,000 in 1996. Decreased average borrowing levels and lower average interest rates were the cause of the lower expense in 1998 and 1997. As the interest on the Company's debt is both London Interbank Offered Rate (LIBOR) and prime related, interest expense will increase or decrease in subsequent periods based on fluctuations in these rates and the borrowing levels of the Company.

Income tax expense was \$747,000 for 1998 compared to expense of \$566,000 in 1997 and income tax benefit of \$202,000 for 1996. During the fiscal year ended December 28, 1996, the Company eliminated the valuation allowance related to the net operating losses of a subsidiary as a result of utilization of the net operating loss carryforward becoming more likely than not.

During 1994 and 1995, the Company owned 70% of TWB Gourmet Foods, Inc. (TWB). TWB was not included in the Company's consolidated returns for 1994 and 1995, and the realization of the net operating loss (NOL) carryforward of TWB was not considered to be a likely occurrence. On August 28, 1996, the Company acquired the remaining 30% of TWB's stock and simultaneously merged Dutterer's of Manchester, its wholly-owned subsidiary, into TWB. TWB, as the wholly-owned surviving entity of the merger, was included in the Company's 1996 consolidated tax return.

As a result of the transaction and inclusion of TWB in the Company's consolidated tax return during 1996, the Company utilized approximately \$600,000 of the TWB net operating loss (NOL). Accordingly, management concluded that it

was now "more likely than not" that the remaining net operating loss would be utilized and did not provide a reserve for the balance of the deferred tax asset. In 1997, the Company utilized an additional \$284,000 of the TWB NOL carryforward. The remaining \$248,000 was utilized in 1998.

The Company reported net income of \$1,197,000 or \$0.80 per share in 1998 compared to \$947,000 or \$0.63 per share for 1997 and \$928,000 or \$0.62 per share for 1996.

Effects of Inflation

Over the past three years, the effects of inflation on the Company's operations have been negligible, averaging less than 4% per year.

Liquidity

The Company uses a number of liquidity indicators for internal evaluation purposes. Certain of these indicators are set forth below as of the close of the past three fiscal years:

	1998 ----	1997 ----	1996 ----
Total debt to total debt plus stockholders' equity	.11	.27	.41
Current assets to current liabilities	2.68	2.81	4.36
Inventory turnover (cost of goods sold to ending inventory)	15.79	15.23	15.00

The decrease in total debt to total debt plus stockholders' equity from 1996 to 1997 relates to the sales of the manufacturing operations, the proceeds of which were used to reduce long-term debt. The decrease from .27 at December 27, 1997 to .11 at December 26, 1998 was due to improved financial results and decreased accounts receivable, which enabled the Company to continue to reduce its long-term debt.

The ratio of current assets to current liabilities from 1997 to 1998 remained relatively unchanged. The decrease in current assets to current liabilities in 1997 was a result of an increase in accounts payable due to changes in terms with vendors.

The inventory turnover rate increased from 15.00 in 1996 to 15.23 in 1997 and 15.79 in 1998, as a result of increased sales and management focus on inventory levels, due primarily to warehouse constraints.

The Company supplements its cash requirements by borrowing against existing credit lines. As of December 26, 1998, and February 27, 1999, the Company had borrowing capacity under its credit line of \$6,400,000 and \$6,100,000, respectively.

Capital Resources

The Company's debt financing at December 26, 1998, consisted of the following:

1. A \$7,500,000 revolving bank note at LIBOR plus 1.50%. The LIBOR rate at December 26, 1998 was 5.63%. The note is due three years after the annual renewal date, currently July, 2001, subject to annual renewal. As of December 26, 1998, the Company had no borrowings against this credit line.
2. A \$2,000,000 Industrial Revenue Bond from a bank for the purpose of expanding the Company's plant and office facilities in Portsmouth, Virginia at an annual interest rate of 91.50% of prime. As of December 26, 1998, the outstanding balance was \$467,000.

3. A \$1,750,000 bank term loan at LIBOR plus 1.50%. The loan is to be repaid in quarterly installments of \$100,000 plus interest through January 1, 2001. As of December 26, 1998, the outstanding balance was \$750,000. The funds were used to finance the increased inventory and accounts receivable required to service a one-year contract awarded to the Company in January 1996 by the United States Department of Defense to furnish food items to various military installations. The contract contains three yearly renewal options and was renewed for 1999. The current contract expires in February 2000. The United States Department of Defense had estimated annual sales volume to be approximately \$19 million. Actual sales volume for fiscal 1998 was \$11.5 million.

The loan agreements associated with the Company's long-term debt financing contain restrictive covenants including a minimum amount of tangible net worth, a minimum working capital ratio and a maximum debt to equity ratio. All requirements were met for 1998 and 1997.

While the Company does not anticipate any other material increase in its capital requirements in the near future, such an increase, if it occurs, is likely to be met through additional long-term debt financing.

Year 2000 Compliance -----

Many computer systems, programs, components, and other hardware with embedded microcontrollers currently record years in a two-digit format. Such systems, if not modified, will be unable to recognize properly dates beyond 1999 -- the so-called "Year 2000 Problem." The Company relies on its computer systems, applications and devices in operating and monitoring various aspects of its business. The Company also relies, directly and indirectly, on systems of customers, suppliers, and financial institutions. Management has divided this issue into three sections: its own computer systems, its own embedded systems, and the computer systems of third party suppliers and customers.

With respect to the Company's computer systems, Management believes all critical hardware and third party software to be "Year 2000 Compliant." The Company's custom software has been modified. Testing of the computer system began in 1998 and should be completed by March 31, 1999. Management believes its computer systems will be "Year 2000 Compliant" at that time. The Company estimates the total cost of modifying its computers and software to be about \$50,000, with about \$30,000 having been expensed in 1998. The Company has been funding and expects to continue to fund the costs of Year 2000 compliance through operating cash flows.

The Company uses several time-sensitive non-computer systems. The Company has completed an inventory of these systems and related components. Based upon information received from suppliers, Management believes that all significant non-computer equipment is compliant. The Company is accepting no new equipment of any type that does not meet standards of compliance for the Year 2000.

The Company relies on the computer systems of third party suppliers and customers. While the Company is querying major suppliers and customers regarding their readiness for the Year 2000, Management cannot guarantee the accuracy of the representations. The Company expects to have contacted all of its significant suppliers and customers by March 31, 1999, and will summarize and review the responses and follow up with suppliers' and customers' assessments. The Company purchases its inventory from numerous vendors and believes that the failure of a limited number of suppliers to be Year 2000 Compliant would not materially affect the Company's operations given the number of alternative suppliers. The Company has also considered the possibility of one or more major customers being temporarily unable to meet its financial obligations because of the Year 2000 Problem and believes that the Company's existing lines of credit are sufficient to compensate for such potential temporary shortfall in cash flow.

There are numerous uncertainties relating to addressing Year 2000 issues, including the actual cost and effort of implementing corrective measures, the degree to which outside parties appropriately address their Year 2000 issues, and other factors, some of which are beyond the Company's control, and all of which may cause results to be different from those currently anticipated by the Company. Doughtie's has developed contingency plans to cover minor failure due to supplier or customer problems. Management believes that the internal systems will work properly due to the extensive analysis and testing that has been completed. Testing of internal systems has indicated only minor problems, which

appear to be cosmetic only and are expected to be corrected before March 31, 1999.

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Form 10-K, the Company's Annual Report to Shareholders, any Form 10-Q or any Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. Forward-looking statements are inherently subject to the uncertainties of future events, so that actual results could differ materially from expectations which are stated or implied in, or could be inferred from such forward-looking statements. Among the kinds of uncertainties that can affect and should be considered in evaluating the Company's forward-looking statements are uncertainties related to economic conditions, government and regulatory policies, customer plans and commitments, changes in the capital markets affecting the Company's capital structure and cost of capital, and the Company's competitive environment. Readers are therefore cautioned not to place undue reliance on any forward-looking statement, which speaks only as of the date such statement is made.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has not conducted transactions, established commitments, or entered into relationships requiring disclosure beyond those provided elsewhere in this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Schedule II - Consolidated Valuation and Qualifying Accounts	

All other schedules are omitted as the required information is either immaterial, inapplicable or is presented in the consolidated financial statements and related notes thereto.

Separate financial statements and supplemental schedules of the registrant are omitted because there are no restricted net assets of subsidiaries as defined in Rules 4-08 and 12-04 of Regulation S-X.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Doughtie's Foods, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Doughtie's Foods, Inc. and its subsidiaries at December 26, 1998 and December 27, 1997, and the results of their operations and their cash flows for each of

the three fiscal years in the period ended December 26, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Virginia Beach, Virginia
February 10, 1999

<TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<CAPTION>

	December 26, 1998	December 27, 1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,706	\$ 26,929
Accounts receivable, net	7,651,940	8,566,995
Inventories	4,625,780	4,669,291
Deferred income taxes	175,179	372,220
Prepaid expenses and other current assets	109,042	68,166
	-----	-----
Total current assets	12,578,647	13,703,601
	-----	-----
Property, plant and equipment - at cost:		
Land	280,827	280,827
Buildings	3,608,055	3,608,055
Delivery equipment	251,980	169,195
Plant and refrigeration equipment	1,648,195	1,590,626
Office equipment	505,698	491,078
	-----	-----
	6,294,755	6,139,781
Less - accumulated depreciation	3,762,874	3,513,216
	-----	-----
	2,531,881	2,626,565
	-----	-----
Other assets	112,289	114,651
	-----	-----
	\$15,222,817	\$16,444,817
	-----	-----
	-----	-----

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 533,333	\$ 533,333
Accounts payable	3,375,081	3,198,641
Income taxes payable	468,061	891,657
Accrued salaries, commissions and bonuses	259,873	182,965

Other accrued liabilities	49,518	63,948
	-----	-----
Total current liabilities	4,685,866	4,870,544
Long-term debt - less current portion	683,334	2,737,910
	-----	-----
Total liabilities	5,369,200	7,608,454
	-----	-----
Stockholders' equity:		
Common stock - \$1 par value; authorized 4,000,000 shares at December 26, 1998 and 2,000,000 at December 27, 1997; issued and outstanding 1,495,023 shares at December 26, 1998 and December 27, 1997	1,495,023	1,495,023
Additional paid-in capital	2,807,037	2,807,037
Retained earnings	5,551,557	4,534,303
	-----	-----
Total stockholders' equity	9,853,617	8,836,363
	-----	-----
	\$15,222,817	\$16,444,817
	-----	-----
	-----	-----

Commitments (Note 8)

See notes to consolidated financial statements.

</TABLE>

<TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<CAPTION>

	Year ended December 26, 1998	Year ended December 27, 1997	Year ended December 28, 1996
<S>	<C>	<C>	<C>
Net sales	\$ 87,194,488	\$ 85,233,420	\$ 80,632,688
Cost of sales	73,043,280	71,133,101	67,481,372
	-----	-----	-----
Gross profit	14,151,208	14,100,319	13,151,316
	-----	-----	-----
Selling, general and administrative expenses	12,045,931	12,344,934	11,956,604
Interest expense	162,087	241,696	468,652
	-----	-----	-----
	12,208,018	12,586,630	12,425,256
	-----	-----	-----
Income before income taxes	1,943,190	1,513,689	726,060
Income tax expense (benefit)	746,533	566,191	(201,760)
	-----	-----	-----
Net income	\$ 1,196,657	\$ 947,498	\$ 927,820
	-----	-----	-----
	-----	-----	-----
Earnings per share:			
Basic	\$.80	\$.63	\$.62
	-----	-----	-----
	-----	-----	-----
Diluted	\$.80	\$.63	\$.62
	-----	-----	-----
	-----	-----	-----

Weighted average shares outstanding - basic	1,495,023	1,496,085	1,500,468
Dilutive effect of stock options	1,275	-	-
	-----	-----	-----
Weighted average shares outstanding - including dilutive potential shares	1,496,298	1,496,085	1,500,468
	-----	-----	-----
	-----	-----	-----

See notes to consolidated financial statements.

</TABLE>

<TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>
Balances at December 30, 1995	\$ 1,503,791	\$ 2,820,629	\$ 2,978,640	\$ 7,303,060
Cash dividends (\$.11 per share)	-	-	(160,072)	(160,072)
Net income for the year ended December 28, 1996	-	-	927,820	927,820
Acquisition of treasury stock, at cost - 6,713 shares	(6,713)	(9,188)	-	(15,901)
	-----	-----	-----	-----
Balances at December 28, 1996	1,497,078	2,811,441	3,746,388	8,054,907
Cash dividends (\$.11 per share)	-	-	(159,583)	(159,583)
Net income for the year ended December 27, 1997	-	-	947,498	947,498
Acquisition of treasury stock, at cost - 2,055 shares	(2,055)	(4,404)	-	(6,459)
	-----	-----	-----	-----
Balances at December 27, 1997	1,495,023	2,807,037	4,534,303	8,836,363
Cash dividends (\$.12 per share)	-	-	(179,403)	(179,403)
Net income for the year ended December 26, 1998	-	-	1,196,657	1,196,657
	-----	-----	-----	-----
Balances at December 26, 1998	\$ 1,495,023	\$ 2,807,037	\$ 5,551,557	\$ 9,853,617
	-----	-----	-----	-----
	-----	-----	-----	-----

See notes to consolidated financial statements.

</TABLE>

<TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

Year ended	Year ended	Year ended
December 26,	December 27,	December 28,
1998	1997	1996

<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 1,196,657	\$ 947,498	\$ 927,820
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	309,097	274,686	469,445
Deferred income taxes	197,041	14,051	(242,863)
Provision for doubtful accounts	(120,000)	674,000	206,413
Loss (gain) on sale of property, plant and equipment	(2,264)	5,932	(99,129)
(Increase) decrease in assets:			
Accounts receivable	1,035,055	(2,316,339)	(1,369,210)
Inventories	43,511	(171,592)	351,405
Prepaid expenses and other current assets	(40,876)	22,876	155,637
Other assets	2,362	(23,094)	741,612
Increase (decrease) in liabilities:			
Accounts payable	176,440	1,567,527	84,007
Income taxes payable	(423,596)	444,882	446,775
Accrued salaries, commissions and bonuses	76,908	42,348	63,911
Accrued employee group insurance	-	-	(174,026)
Other accrued liabilities	(14,430)	3,408	(53,040)
	-----	-----	-----
	2,435,905	1,486,183	1,508,757
	-----	-----	-----
Cash flows from investing activities:			
Additions to property, plant and equipment	(246,102)	(266,544)	(250,782)
Proceeds from sale of property, plant and equipment	33,953	927,735	700
	-----	-----	-----
	(212,149)	661,191	(250,082)
	-----	-----	-----
Cash flows from financing activities:			
Long-term borrowings	-	-	2,150,000
Reductions of long-term debt	(2,054,576)	(2,327,090)	(3,373,334)
Cash dividends	(179,403)	(159,583)	(160,072)
Acquisition of treasury stock	-	(6,459)	(15,901)
	-----	-----	-----
	(2,233,979)	(2,493,132)	(1,399,307)
	-----	-----	-----
Net decrease in cash and cash equivalents	(10,223)	(345,758)	(140,632)
Cash and cash equivalents at beginning of year	26,929	372,687	513,319
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 16,706	\$ 26,929	\$ 372,687
	-----	-----	-----

See notes to consolidated financial statements.

</TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Principles of consolidation - The consolidated financial statements include the accounts of Doughtie's Foods, Inc. (the Company) and its wholly-owned subsidiary in 1998 and 1997 (and its majority-owned and wholly-owned subsidiaries in 1996). All material intercompany accounts and transactions have been eliminated in consolidation. The consolidated group operates in one segment and is engaged in the processing, manufacturing (1997 and 1996 only) and wholesaling of a broad line of meat products and other food items.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents - The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts - The Company and its subsidiaries maintain allowances for doubtful accounts based on an analysis of previous loss experience and current conditions.

Inventories - Inventories, consisting principally of raw materials and finished food products, are stated at the lower of last-in, first-out (LIFO) cost, or market value.

Property, plant and equipment - Property, plant and equipment are stated at cost. Accelerated methods are used to provide for depreciation on all assets other than buildings. The straight-line method is used for buildings.

The estimated useful asset lives used in computing depreciation are as follows:

Buildings	8 to 40 years
Delivery equipment	3 to 7 years
Plant and refrigeration equipment	3 to 7 years
Office equipment	3 to 7 years
Leasehold improvements	1 to 7 years

The cost and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts, and gains and losses thereon are included in income.

Accounts payable - At December 26, 1998 and December 27, 1997, approximately \$1,247,000 and \$1,414,000, respectively, of outstanding checks are included in accounts payable.

Fair value of financial instruments - The carrying value of financial instruments including cash and cash equivalents, net accounts receivable, accounts payable, accrued liabilities and long-term debt approximated fair value at December 26, 1998 and December 27, 1997.

Income taxes - The Company files a consolidated federal income tax return. Prior to the acquisition of the minority interest during 1996, one subsidiary was required to file a separate return.

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. The provision for income taxes is based on taxes currently payable and the changes in deferred tax assets and liabilities.

Earnings per share - Earnings per share (EPS) are based on the weighted average number of shares outstanding. The Company adopted Statement of Financial Accounting Standards No. 128 (FAS 128), "Earnings per Share" during 1997. The statement replaces the presentation of primary and fully diluted EPS with a presentation of basic and diluted EPS. For the Company, there is no difference between the calculation of basic and primary EPS. The Company had no potentially dilutive securities at December 27, 1997 or December 28, 1996. At December 26, 1998, diluted earnings per share includes the dilutive effect of the stock options issued in 1998.

Stock split - On November 25, 1997, the Board of Directors declared a 50% stock split payable on January 12, 1998, to stockholders of record on December 12, 1997. All references in the consolidated financial statements referring to shares, share prices and per share amounts have been adjusted retroactively for the 50% stock split.

Concentrations of credit risk and significant customers - One of the Company's commercial customers represents 12.5% and 13.1% of trade accounts receivable at December 26, 1998 and December 27, 1997, respectively. During 1998, 1997 and 1996, the Company had sales under a contract with the United States Department of Defense which aggregated approximately 13.2%, 15.8% and 11.5%, respectively, of net sales. This contract expires in February 2000.

New accounting standard - In June 1998, the Financial Accounting Standards Board issued FAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. This Statement is not currently applicable to the Company, since the Company does not have any derivative instruments and is not involved in hedging activities.

Reclassifications - Certain prior year amounts have been reclassified to conform with the current year presentation.

Note 2 - Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts as follows:

	December 26, 1998	December 27, 1997
Trade accounts receivable	\$8,011,565	\$9,195,367
Allowances for doubtful accounts	(359,625)	(628,372)
	-----	-----
	\$7,651,940	\$8,566,995
	-----	-----
	-----	-----

Earnings for the year and the quarter ended December 26, 1998 include a \$180,000 increase to income after income taxes or \$.12 per basic and diluted share related to improved customer credit quality during the fourth quarter of 1998, including collection of certain accounts previously considered doubtful.

Note 3 - Inventories

Inventories used in determining cost of sales are as follows:

	Total	Raw materials	Finished products
December 30, 1995	\$4,849,104	\$1,163,240	\$3,685,864
December 28, 1996	\$4,497,699	\$ 549,161	\$3,948,538
December 27, 1997	\$4,669,291	-	\$4,669,291
December 26, 1998	\$4,625,780	-	\$4,625,780

The differences between first-in, first-out (FIFO) and LIFO inventory values are as follows:

	December 26, 1998	December 27, 1997	December 28, 1996	December 30, 1995
FIFO cost	\$5,342,882	\$5,419,163	\$5,517,080	\$5,680,063
LIFO reserves	(717,102)	(749,872)	(1,019,381)	(830,959)
	-----	-----	-----	-----
LIFO cost	\$4,625,780	\$4,669,291	\$4,497,699	\$4,849,104
	-----	-----	-----	-----
	-----	-----	-----	-----

The \$32,770 change in LIFO reserves in 1998 increased net income and basic and diluted earnings per share by approximately \$20,200 and \$.01, respectively. The \$269,509 change in LIFO reserves in 1997 increased net income and basic and diluted earnings per share by approximately \$166,000 and \$.11, respectively. The \$188,422 change in LIFO reserves in 1996 decreased net income and basic and diluted earnings per share by approximately \$121,000 and \$.08, respectively.

Note 4 - Long-term Debt

Long-term debt consists of the following:

	December 26, 1998	December 27, 1997
Long-term revolving bank note	\$ -	\$1,521,243
Bank term loan	750,000	1,150,000
Industrial Revenue Bond	466,667	600,000
	-----	-----
	1,216,667	3,271,243
Less - current portion	533,333	533,333
	-----	-----
Long-term debt - less current portion	\$ 683,334	\$2,737,910
	-----	-----
	-----	-----

Principal payments are due as follows: 1999 - \$533,333, 2000 - \$483,333, and 2001 - \$200,001.

The Company has a \$7,500,000 revolving bank note at LIBOR plus 1.50%. The LIBOR rate at December 26, 1998 was 5.63%. The note is due three years after the annual renewal date, currently July 2001, subject to annual renewal. The amount available under this line is limited to the sum of 85% of qualifying accounts and notes receivable and 20% of qualifying inventory on hand. The Company had \$6,400,000 of borrowing capacity available on this credit line at December 26, 1998.

The Company has a bank term loan at LIBOR plus 1.50%. The loan is payable in quarterly installments of \$100,000 plus interest through January 1, 2001.

The Company has a \$2,000,000 Industrial Revenue Bond from a bank for the purpose of expanding its plant and office facilities in Portsmouth, Virginia, at an interest rate of 91.5% of prime. The prime rate at December 26, 1998, was 7.75%. The bond is payable in monthly installments of \$11,111 plus interest through July 1, 2001 with a final payment of the outstanding balance due on July 1, 2001.

Cash paid for interest totaled \$162,087, \$241,696, and \$468,652 in 1998, 1997 and 1996, respectively.

Each of the three loans is collateralized by all accounts and notes receivable, inventories, contract rights and property, plant and equipment of the consolidated group. These loan agreements contain restrictive covenants including a minimum amount of tangible net worth, a minimum working capital ratio, and a maximum debt to equity ratio. All requirements were met for 1998.

Note 5 - Retirement Plans

The Company has a retirement savings and 401(k) plan which covers substantially all full-time employees except those covered by a collective bargaining agreement. The Company makes contributions to the plan based on 50% of the participants' contributions, which can range from 1% to 6% of their total compensation. In addition to the matched contribution, participants may make additional unmatched contributions of up to 9% of their compensation. The Company may also make discretionary contributions to the plan. Contributions to the retirement savings and 401(k) plan for 1998, 1997 and 1996 were \$75,765, \$79,955 and \$91,517, respectively.

Note 6 - Income Taxes

The provision for income taxes is based on taxes currently payable and the changes in deferred tax assets and liabilities.

The components of income tax expense (benefit) are as follows:

	1998	1997	1996
Current federal	\$ 498,949	\$ 459,623	\$ 52,109
Current state	50,543	92,517	(11,006)

Deferred federal	163,591	2,386	(201,635)
Deferred state	33,450	11,665	(41,228)
	-----	-----	-----
	\$ 746,533	\$ 566,191	\$ (201,760)
	-----	-----	-----
	-----	-----	-----

The effective income tax rates vary from the statutory U.S. federal income tax rate as follows:

<TABLE>

<CAPTION>

	1998		1997		1996	
	Dollar amount	Percent of pretax income	Dollar amount	Percent of pretax income	Dollar amount	Percent of pretax income
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Federal income taxes computed at statutory rates	\$660,685	34.0%	\$514,654	34.0%	\$ 246,860	34.0%
State income taxes, net of federal income tax benefit	60,444	3.1	64,937	4.3	31,148	4.3
Fuel tax credit	(15,278)	(0.8)	(15,278)	(1.0)	(15,278)	(2.1)
Nondeductible merger expenses	25,996	1.3	-	-	-	-
Recognition of subsidiary operating loss	-	-	-	-	(467,954)	(64.5)
Other	14,686	0.8	1,878	0.1	3,464	0.5
	-----	-----	-----	-----	-----	-----
	\$746,533	38.4%	\$566,191	37.4%	\$ (201,760)	(27.8)%
	-----	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----	-----

</TABLE>

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 26, 1998	December 27, 1997
Simplified LIFO differences	\$ 54,916	\$ 57,425
Capitalized inventory cost	25,836	24,687
Allowances for doubtful accounts	137,700	240,604
Net operating loss of subsidiary	-	94,996
	-----	-----
Gross deferred tax asset	218,452	417,712
Involuntary conversion	(43,273)	(45,492)
	-----	-----
Net deferred tax asset	\$ 175,179	\$372,220
	-----	-----
	-----	-----

Cash paid (refunded) for income taxes totaled \$973,088, \$73,037 and \$(185,033) in 1998, 1997 and 1996, respectively.

Note 7 - Stock Incentive Plan

In 1998, the Company adopted a Stock Incentive Plan. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) in accounting for its employee stock options. In electing to account for its stock options under APB 25, the Company is required by FAS No. 123, "Accounting for Stock-Based Compensation," to disclose pro forma

information regarding net income and earnings per share as if the Company had adopted FAS No. 123.

Under the Company's Stock Incentive Plan, selected employees of the Company and certain directors may be granted options to purchase common stock. The exercise price of the options may not be less than 100% of the fair market value of the Company's common stock on the date of grant of such options, and the options must be exercised within ten years. A maximum of 112,500 shares of common stock may be granted under this plan. The options vest immediately upon a change of ownership (Note 10) or one-half at the grant date and the remaining balance over a two year period.

During 1998, the Company issued 40,500 options to certain employees and 1,600 options to certain directors at a weighted average exercise price of \$6.54. The range of exercise prices for options issued during 1998 was \$6.50 - \$7.50. At December 26, 1998, all options were outstanding and 21,050 of the options were vested at a weighted-average exercise price of \$6.54.

The fair value of each stock option granted in fiscal 1998 was estimated using the Black-Scholes option model with the following weighted average assumptions: dividend yield of 1.83%, expected volatility of 53.83%, weighted average risk-free interest rate of 4.30% and an expected life of one and one half years. The weighted average fair value of options granted in fiscal 1998 is \$1.73. Had compensation cost for the Company's stock options been determined based on the fair value at the grant dates for awards consistent with the requirements of SFAS No. 123, the Company's pro forma net income would have decreased by \$34,000 or \$.02 per basic and diluted share for the year ended December 26, 1998. No options were granted in prior years.

Note 8 - Operating Leases

In January 1996, the Company entered into a seven-year full service operating lease covering thirty-six new trucks and ten new trailers. The lease provides for increases in rentals based on increases in the Consumer Price Index.

Minimum annual rentals under the aforementioned lease are set forth in the table below. These minimum rental commitments do not include contingent rentals which are based on usage.

	Trucks and Trailers
1999	\$ 527,724
2000	527,724
2001	527,724
2002	527,724
2003	263,862

	\$2,374,758

Total rent expense charged to consolidated operations in 1998, 1997, and 1996 was \$1,251,975, \$1,182,909 and \$1,043,642, respectively. Rental expense in 1998, 1997 and 1996 included contingent rentals of approximately \$437,489, \$380,681 and \$396,191, respectively.

Note 9 - Sale of Assets

On August 28, 1996, the Company merged its Dutterer's of Manchester Corporation subsidiary into TWB Gourmet Foods, Inc. in order to streamline operations. Simultaneously, the Company acquired the remaining 30% interest in TWB from the minority stockholder.

On September 6, 1996, the Company sold certain assets of TWB and discontinued manufacturing of the associated gourmet food products. The terms of the sale were a \$30,000 cash down payment, \$20,000 assigned accounts receivable and \$137,000 of free trade credit from the buyer for a total sale price of \$187,000. No gain or loss was recognized as a result of this sales transaction.

On February 28, 1997, the Company sold the assets of its manufacturing division's barbecue and chili business for approximately \$840,000 in cash.

Barbecue and chili sales accounted for less than 5% of consolidated 1996 sales volume. The net pretax gain on the sale was approximately \$50,000.

On April 14, 1997, the Company sold the assets of its manufacturing division's deli meats business for approximately \$486,000. The terms of the sale were a \$286,000 cash down payment with the \$200,000 balance in the form of secured notes to be paid prior to April 15, 1998. Deli meat sales accounted for less than 5% of consolidated 1996 sales volume. The net pretax gain on the sale was approximately \$140,000.

Note 10 - Subsequent Event

On February 8, 1999, the Company and SYSCO Corporation (SYSCO) signed a Letter of Intent whereby a subsidiary of SYSCO and the Company will merge (the Merger). Under the Letter of Intent, the stockholders of the Company will receive \$17.00 per share in cash or shares of SYSCO common stock subject to adjustment under certain circumstances. In addition, all options outstanding will become fully vested and exercisable and shall be deemed exercised as of the closing of the Merger. Consummation of the Merger is subject to, among other things, negotiation of a definitive Merger Agreement and approval by the Company's stockholders.

Note 11 - Quarterly Financial Data (Unaudited)

The following is a summary of the results of operations by quarters:

Quarter	Net Sales	Gross Profit	Net Income	Basic and Diluted Earnings Per Share
1998				
First	\$19,308,576	\$ 3,250,598	\$ 180,711	\$.12
Second	22,987,483	3,638,347	252,685	.17
Third	23,596,821	3,657,243	271,994	.18
Fourth	21,301,608	3,605,020	491,267	.33
	-----	-----	-----	-----
	\$87,194,488	\$14,151,208	\$1,196,657	\$.80
	-----	-----	-----	-----
	-----	-----	-----	-----
1997				
First	\$18,692,236	\$ 3,182,477	\$ 143,543	\$.09
Second	21,683,108	3,587,253	341,622	.23
Third	24,172,942	3,720,523	329,462	.22
Fourth	20,685,134	3,610,066	132,871	.09
	-----	-----	-----	-----
	\$85,233,420	\$14,100,319	\$ 947,498	\$.63
	-----	-----	-----	-----
	-----	-----	-----	-----

Unusual items affecting 1998 and 1997 net income in the above quarterly data are discussed in Notes 2 and 9.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

VERNON W. MULES is Chairman of the Board of the Company. He served as the Company's Chief Executive Officer between May 1986 and May 1994. He has served as Chairman of the Board of Directors since February 1982. Mr. Mules served as President of the Company from May 1973 until May 1986. He is a member

of the Executive Committee of the Company's Board of Directors.

STEVEN C. HOUFEK has been President of the Company since August 1992 and has served as the Company's Chief Executive Officer since May 1994. From May 1987 until August 1992, he served as Executive Vice President of the Company. Between November 1977 and May 1987, Mr. Houfek served the Company in various management capacities, including Senior Vice President. He is a member of the Executive Committee of the Company's Board of Directors.

MARION S. WHITFIELD, JR. has been Senior Vice President of the Company since May 1987. He served as Vice President of the Company from May 1983 until May 1987. He is a member of the Executive Committee of the Company's Board of Directors.

ADOLPHUS W. HAWKINS, JR., an international business consultant, was Vice President of Scott & Stringfellow, Inc., an investment banking firm located in Richmond, Virginia, from July 1979 to August 1983. He is a member of the Compensation Committee and the Audit Committee of the Company's Board of Directors and has been a Director of the Company since 1972.

DONALD B. RATCLIFFE, an architect, has owned his own firm, Donald B. Ratcliffe, AIA, Associates, Inc., located in Baltimore, Maryland, since 1954. He is a member of the Executive Committee, the Compensation Committee and the Audit Committee of the Company's Board of Directors.

JAMES F. CERZA, JR. has served as Executive Vice President of Heilig-Meyers Company, a Richmond, Virginia-based furniture retailer, since August 1989. From November 1988 to August 1989, he served as Regional Vice President, Operations for the same company. He is a member of the Compensation Committee and the Audit Committee of the Company's Board of Directors.

WILLIAM R. WADDELL has been a partner in the law firm of McGuire, Woods, Battle & Boothe, L.L.P., since 1969 and Managing Partner of the firm's office in Norfolk, Virginia, since 1995. He is a member of the Compensation Committee and the Audit Committee of the Company's Board of Directors.

Executive Officers

With respect to information concerning the Company's executive officers, see PART I, ITEM 1, BUSINESS: Executive Officers.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and persons who own more than ten percent of the Company's Common Stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the Company's Common Stock and to provide copies of the reports to the Company. Each of Thomas G. Brown, Robert F. Horton, Steven C. Houfek, Michael S. LaRock, William E. Moody, Jr., Jerry D. Nixon, William G. Ratliff, Marion S. Whitfield, Jr., James F. Cerza, Jr., Adolphus W. Hawkins, Jr., Donald B. Ratcliffe, and William R. Waddell, directors and/or officers of the Company, were granted stock options under the 1998 Stock Incentive Plan in the fiscal year ending December 26, 1998, which were not timely reported on Form 3 or Form 4, as applicable, pursuant to the requirements of Section 16(a). Except as set forth above, to the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required to be filed during the fiscal year ended December 26, 1998, the Company's directors, executive officers, and stockholders beneficially owning more than ten percent of the Company's Common Stock complied with their respective Section 16(a) reporting requirements.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following summary compensation table presents information about the compensation paid by the Company during its three most recent fiscal years to those individuals who were, as of the end of the last completed fiscal year, the Company's Chief Executive Officer and its four next highest paid executive

officers.

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	Year	ANNUAL COMPENSATION(1)			LONG-TERM COMPENSATION	
		Salary(\$)	Bonus(\$)	Other Annual Compen- sation (\$)(3)	Securities Underlying Options (#) (4)	All Other Compen- sation (\$)(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Steven C. Houfek	1998	140,041	29,000	5,448	15,000	4,624
President and Chief	1997	130,489	25,000	5,045	-0-	4,666
Executive Officer	1996	125,597	20,000	4,583	-0-	3,914
Vernon W. Mules	1998	152,573	15,000	-0-	-0-	4,577
Chairman of	1997	152,573	-0-	-0-	-0-	4,577
the Board	1996	152,573	-0-	-0-	-0-	4,577
Marion S. Whitfield, Jr.	1998	112,523	20,000	2,173	3,000	3,891
Senior Vice President	1997	107,175	15,000	2,069	-0-	3,637
	1996	102,339	12,000	1,973	-0-	3,129
Thomas G. Brown	1998	86,289	17,000	-0-	3,000	3,009
Vice President --	1997	79,764	14,000	1,623	-0-	2,802
Purchasing	1996	70,822	12,000	3,053	-0-	2,396
Robert F. Horton	1998	84,114	19,000	-0-	7,500	2,883
Vice President --	1997	67,270	12,000	-0-	-0-	2,168
Business Development	1996	54,635	5,000	-0-	-0-	1,639

</TABLE>

- (1) While the five named individuals received perquisites or other personal benefits in the years shown, in accordance with Securities and Exchange Commission regulations, the value of these benefits are not indicated since they did not exceed the lesser of \$50,000 or 10% of the individual's salary and bonus in any year.
- (2) The amounts shown in the column captioned "All Other Compensation" consist entirely of the Company's matching contributions to the 401(k) Plan for the benefit of the named executive. The 401(k) Plan, which became effective as of July 1, 1992, covers virtually all full-time employees except those covered by a collective bargaining agreement. The Company makes contributions to the plan based on 50% of the participants' contributions, which can range from 1% to 6% of total compensation. Participating employees may also make unmatched contributions to the 401(k) Plan up to 15% of total compensation.
- (3) The amounts shown in the column captioned "Other Annual Compensation" consist entirely of amounts paid in lieu of accrued vacation.
- (4) The amounts shown in the column captioned "Securities Underlying Options" represent the number of options for Common Stock granted on January 9, 1998, subject to shareholder approval, which approval was obtained at the annual meeting of shareholders on May 21, 1998, pursuant to the terms of the 1998 Stock Incentive Plan. One-half of the options granted to each officer were exercisable on September 22, 1998, one-quarter of such options were exercisable after January 9, 1999, and one-quarter of such options are exercisable after January 9, 2000. However, all options shall vest and become immediately exercisable upon a change in control of the Company.

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

INDIVIDUAL GRANTS(1)	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION
% OF TOTAL OPTIONS	

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (2)	GRANTED TO EMPLOYEES IN FISCAL YEAR	FOR OPTION TERM (3)	
			5% (\$)	10% (\$)
<S>	<C>	<C>	<C>	<C>
Steven C. Houfek	15,000	37.0%	390,000	877,500
Vernon W. Mules	-0-	0.0%	-0-	-0-
Marion S. Whitfield, Jr.	3,000	7.4%	78,000	175,000
Thomas G. Brown	3,000	7.4%	78,000	175,000
Robert F. Horton	7,500	18.5%	195,000	438,750

</TABLE>

(1) All options granted expire January 9, 2008 and are exercisable at a base price of \$6.50.

(2) The options are exercisable with respect to the underlying shares as follows: 50 percent on September 22, 1998; 25 percent after January 9, 1999 and the remaining 25 percent after January 9, 2000.

(3) The potential realizable value is calculated based on the fair market value on the date of grant, which is equal to the exercise price of the option, assuming that the shares appreciate in value from the option grant date compounded annually until the end of the option term at the rate specified (5% or 10%) and that the option is exercised and sold on the last day of the option term for the appreciated share price. Potential realizable value is net of the option exercise price. The assumed rates of appreciation are specified in the rules and regulations of the SEC and do not represent the Company's estimate or projection of future prices of the shares.

<TABLE>
<CAPTION>

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/26/98		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/26/98 (\$) (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Steven C. Houfek	-0-	-0-	7,500	7,500	2,348	2,348
Vernon W. Mules	-0-	-0-	-0-	-0-	-0-	-0-
Marion S. Whitfield, Jr.	-0-	-0-	1,500	1,500	470	470
Thomas G. Brown	-0-	-0-	1,500	1,500	470	470
Robert F. Horton	-0-	-0-	3,750	3,750	1,174	1,174

</TABLE>

(1) Value based on the closing price of a share of Common Stock of \$6.813 on December 24, 1998, as reported on the Nasdaq SmallCap Market, minus the exercise price, rounded to the nearest dollar.

Directors' Compensation

Directors who are not officers of the Company are paid an annual salary of \$4,000, plus a fee of \$500 per meeting attended, as well as reimbursement for travel and lodging expenses incurred in connection with such attendance. Each of the non-employee directors was awarded 400 nonstatutory stock options under the terms of the 1998 Plan on May 21, 1998, with one-third of such options exercisable on May 22, 1998, one-third of such options exercisable on the date of the second annual meeting after May 21, 1998, and one-third exercisable on the date of the third annual meeting after May 21, 1998. However, all options shall vest and become immediately exercisable upon a change in control of the Company.

Compensation Committee Interlocks and Insider Participation

Mr. Waddell, a director since 1996 and a member of the Compensation Committee, is a partner in the law firm of McGuire, Woods, Battle & Boothe, L.L.P., which has served as counsel to the Company on a regular basis since

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT

VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS

The following table sets forth information as of March 19, 1999, as to shares of Common Stock owned by (i) each director of the Company, (ii) each executive officer named in the Summary Compensation Table, (iii) all Directors and officers as a group, and (iv) each person who is known by the Company to own beneficially more than five percent of the Company's Common Stock, together with their respective percentages.

<TABLE>
<CAPTION>

NAME	COMMON STOCK OF THE COMPANY BENEFICIALLY OWNED, DIRECTLY OR INDIRECTLY, AS OF MARCH 19, 1999 (1)	PERCENT OF CLASS
<S>	<C>	<C>
Vernon W. Mules	134,889 (2)	9.02
Steven C. Houfek	706,314 (3)	46.89
Marion S. Whitfield, Jr.	6,450 (9)	*
Adolphus W. Hawkins, Jr.	1,448 (9)	*
Donald B. Ratcliffe	133 (9)	*
James F. Cerza, Jr.	766 (4), (9)	*
William R. Waddell	1,579 (9)	*
Thomas G. Brown	2,250 (9)	*
Robert F. Horton	12,979 (9)	*
All officers and directors as a group (13 persons)	866,976 (2), (3), (4), (9)	57.55
Voting Trust u/a dated June 17, 1986, as extended	672,021 (5)	44.95
Mary D. Houfek	702,129 (6), (7)	46.60
Elsie D. Waddell	747,743 (6), (8)	50.00
Barbara D. Horton	675,870 (6), (10)	45.21
Performance Food Group Company	110,750 (11)	7.41

</TABLE>

* Less than 1% of outstanding shares of Common Stock.

- (1) Unless otherwise indicated by footnote, each individual has sole voting power and sole investment power with respect to the shares set forth opposite his name.
- (2) Includes 1,731 shares owned of record by Mr. Mules' wife, the control of which shares Mr. Mules disclaims. Mr. Mules' business address is Doughtie's Foods, Inc., 2700 Lord Baltimore Drive, Baltimore, Maryland 21244.
- (3) Includes 690,879 shares beneficially held by Mr. Houfek's wife, Mary D. Houfek, the control of which shares Mr. Houfek disclaims. Ms. Houfek's beneficial holdings are set forth in the table and Notes 6 and 7. Mr. Houfek's business address is Doughtie's Foods, Inc., 2410 Wesley Street, Portsmouth, Virginia 23707.
- (4) Includes 633 shares owned of record by Mr. Cerza's wife, the control of which Mr. Cerza disclaims.
- (5) The shares are owned of record by Mary D. Houfek, Barbara D. Horton and Elsie D. Waddell as trustees of the trust (the "Voting Trust"), which

was created under a voting trust agreement among Ms. Houfek, Ms. Horton, Ms. Waddell, and Mary H. Doughtie dated June 17, 1986. Ms. Houfek, Ms. Horton and Ms. Waddell share voting and investment power with respect to these shares. On February 23, 1995, the parties to the voting trust agreement agreed to extend the term of the Voting Trust until December 31, 2004. The Voting Trust's address is 103 South Dogwood Road, Virginia Beach, Virginia 23451.

- (6) Includes 672,021 shares held by Ms. Houfek, Ms. Horton and Ms. Waddell as trustees of the Voting Trust. See Note 5 above.
- (7) Includes 14,673 shares held by Ms. Houfek as custodian for certain of her children and 15,435 shares and exercisable options owned by Ms. Houfek's husband, the control of which shares Ms. Houfek disclaims. Ms. Houfek's address is 103 South Dogwood Road, Virginia Beach, Virginia 23451. Ms. Houfek is the wife of Steven C. Houfek, President and director of the Company.
- (8) Ms. Waddell's address is 2777 Broad Bay Road, Virginia Beach, Virginia 23451.
- (9) Includes shares pursuant to options exercisable within 60 days as follows: Mr. Houfek--11,250; Mr. Whitfield--2,250; Mr. Hawkins--133; Mr. Ratcliffe--133; Mr. Cerza--133; Mr. Waddell, 133; Mr. Brown--2,250; and Mr. Horton--5,625.
- (10) Includes 3,849 shares owned of record by Ms. Horton's husband, the control of which Ms. Horton disclaims. Ms. Horton's address is 5200 Lake Circle Drive, Portsmouth, Virginia 23703.
- (11) Performance Food Group Company's address is 6800 Paragon Place, Suite 500, Richmond, Virginia 23230. Information is based on Schedule 13D filed with the SEC on June 16, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Waddell, a director since 1996, is a partner in the law firm of McGuire, Woods, Battle & Boothe, L.L.P., which has served as counsel to the Company on a regular basis since 1974.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1)
Financial Statements (Included in Part II):

See Item 8 in Part II.

(a) (2)
Financial Statement Schedules (Included in Part IV):

See Item 8 in Part II

(a) (3)
List of Exhibits:

Exhibit Number	Description
2(a) (1).	Articles of Merger (with attached Plan of Merger) Merging Dutterer's of Manchester Corporation (a Maryland corporation) and TWB Gourmet Foods, Inc. (a Virginia corporation), filed with the Virginia State

Corporation Commission on August 28, 1996 (incorporated by reference to Exhibit 2(a)(1) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).

- 2(a)(2). Articles of Merger Merging Dutterer's of Manchester Corporation Into TWB Gourmet Foods, Inc., filed with the Maryland State Department of Assessments and Taxation on August 27, 1996 (incorporated by reference to Exhibit 2(a)(2) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 3(a). Articles of Incorporation of the Company (incorporated by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998).
- 3(b). Bylaws of the Company (incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 30, 1995).
- 4(a)(1). Amended and Restated Credit Agreement dated as of June 14, 1996, between the Company and Crestar Bank relating to a \$7,500,000 revolving credit commitment and a \$1,750,000 term loan (incorporated by reference to Exhibit 4(a) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 4(a)(2). First Amendment to Amended and Restated Credit Agreement dated as of September 30, 1996 between the Company and Crestar Bank (incorporated by reference to Exhibit 4(a)(2) to the Company's Annual Report on Form 10-K for the year ended December 27, 1997).
- 4(a)(3). Second Amendment to Amended and Restated Credit Agreement dated as of July 1, 1997 between the Company and Crestar Bank (incorporated by reference to Exhibit 4(a)(3) to the Company's Annual Report on Form 10-K for the year ended December 27, 1997).
- 4(b)(1). Commercial Note dated June 14, 1996, made by the Company in favor of Crestar Bank in the principal amount of \$7,500,000 (incorporated by reference to Exhibit 4(b)(1) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 4(b)(2). Commercial Note dated June 14, 1996, made by the Company in favor of Crestar Bank in the principal amount of \$1,750,000 (incorporated by reference to Exhibit 4(b)(2) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 9. Voting Trust Agreement Dated June 17, 1986, among Mary H. Doughtie, Mary D. Houfek, Barbara D. Horton and Elsie D. Waddell, as Amended (incorporated by reference to Exhibit 9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10(a)(1). Agreement dated November 2, 1998 between the Company and the Bakery, Confectionery and Tobacco Workers' International Union, Local No. 66.
- 10(b)(1). Lease Agreement Dated January 26, 1996, Between Keen Leasing, Inc., Lessor, and the Company, Lessee, relating to the leasing of certain trucks (incorporated by reference to Exhibit 10(b)(3) to the Company's Annual Report on Form 10-K for the year ended December 30, 1995).
- 10(c)(1). Security Agreement dated as of June 14, 1996, made by the Company to Crestar Bank granting a security interest in accounts, inventory, equipment, and general intangibles (incorporated by reference to Exhibit 10(c)(1) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(c)(2). Security Agreement dated as of June 14, 1996, made by Dutterer's of Manchester Corporation to Crestar Bank granting a security interest in a promissory note dated September 3, 1995, made by Value Added Food Services, Inc., payable to the order of the holder in the original principal amount of \$1,038,756 (incorporated by reference to Exhibit 10(c)(2) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(c)(3). Guaranty Agreement dated as of June 14, 1996, made by Dutterer's of Manchester Corporation for the benefit of Crestar Bank (incorporated

by reference to Exhibit 10(c)(3) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).

- 10(c)(4). Assignment dated as of June 14, 1996, made by the Company to Crestar Bank assigning as a security interest the Company's rights to receive all monies under Contract No.SP0300-967-D-2900 dated January 26, 1996 between the Company and the United States Department of Defense (incorporated by reference to Exhibit 10(c)(4) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(c)(5). Credit Line Deed of Trust dated as of June 14, 1996, made by the Company for the benefit of Crestar Bank relating to certain property located at 2410 and 2415 Wesley Street and 149 Chautauqua Avenue, Portsmouth, Virginia, securing the maximum principal amount of \$3,025,000 (incorporated by reference to Exhibit 10(c)(5) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(c)(6). Indemnity Deed of Trust dated as of June 12, 1996, made by Dutterer's of Manchester Corporation for the benefit of Crestar Bank relating to certain property located in Carroll County, Maryland, securing the maximum principal amount of \$1,200,000 (incorporated by reference to Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(d)(1). Asset Purchase Agreement dated as of January 30, 1997, among the Company, The Smithfield Ham and Products Company, Incorporated (the "Buyer"), The Smithfield Companies, Inc., Vernon W. Mules, and Steve Houfek, pursuant to which the Company agreed to sell the assets connected with the manufacture of the Company's barbecue and chili products (incorporated by reference to Exhibit 10(e)(1) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(d)(2). Product Supply Agreement dated as of February 28, 1997, between the Company and The Smithfield Ham and Products Company, Incorporated ("Smithfield"), pursuant to which the Company agreed to purchase its requirements of barbecue and chili products for a period of five years (incorporated by reference to Exhibit 10(e)(2) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(d)(3). Trademark License Agreement dated as of February 28, 1997, between the Company and The Smithfield Ham and Products Company, Incorporated ("Smithfield"), pursuant to which the Company granted a license to Smithfield to use the Company's registered Doughtie's trademark in connection with the manufacture and sale of certain barbecue, chili, and related products (incorporated by reference to Exhibit 10(e)(3) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(e). Asset Purchase Agreement dated as of September 6, 1996 by and among Loetitia Adam St. James and Chris L. St. James, TWB Gourmet Foods, Inc. (TWB), CP Specialty Foods, Inc. (CP), and Doughtie's Foods, Inc., pursuant to which TWB sold certain assets to CP (incorporated by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 28, 1996).
- 10(e)(1). Asset Purchase Agreement dated as of March 18, 1997, among the Company, Bruce R. Biddle and Levis E. Cothran, or their assigns (the "Buyer"), Vernon W. Mules, and Steve Houfek, pursuant to which the Company agreed to sell to the Buyer the assets connected with the manufacture of the Company's delicatessen-style meat products (incorporated by reference to Exhibit 10(h)(1) to the Company's Annual Report on Form 10-K for the year ended December 27, 1997).
- 10(e)(2). Product Supply Agreement dated as of April 14, 1997, between the Company and Coddle Roasted Meats, Inc. ("Coddle"), pursuant to which the Company agreed to purchase from Coddle's its requirements of delicatessen-style meat products for a period of five years (incorporated by reference to Exhibit 10(h)(2) to the Company's Annual Report on Form 10-K for the year ended December 27, 1997).
- 10(e)(3). Trademark License Agreement dated as of April 14, 1997, between the

Company and Coddle, pursuant to which the Company granted a license to Coddle to use the Company's registered Doughtie's trademark in connection with the manufacture and sale of certain delicatessen-style meat products (incorporated by reference to Exhibit 10(h)(3) to the Company's Annual Report on Form 10-K for the year ended December 27, 1997).

10(f) 1998 Stock Incentive Plan (incorporated by reference to Exhibit 99 of the Company's Registration Statement on Form S-8 (File No. 333-56951) effective June 16, 1998).

21 List of Subsidiaries

23 Consent of Independent Accountants

27 Financial Data Schedule

b)
Reports on Form 8-K:

The Company filed no reports on Form 8-K during the last quarter of the Company's fiscal year ended December 26, 1998.

<TABLE>

DOUGHTIE'S FOODS, INC. AND SUBSIDIARIES
SCHEDULE II--CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

<CAPTION>

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Charged to costs and expenses	Deductions (A)	Balance at end of period
Valuation account deducted from asset to which it applies - for doubtful trade receivables:				
<S>	<C>	<C>	<C>	<C>
Year ended December 28, 1996	\$ 333,308	\$ 206,413	\$ 198,243	\$ 341,478
Year ended December 27, 1997	\$ 341,478	\$ 674,000	\$ 387,106	\$ 628,372
Year ended December 26, 1998	\$ 628,372	\$ (120,000)	\$ 148,747	\$ 359,625
Valuation account deducted from asset to which it applies - for deferred tax asset:				
Year ended December 28, 1996	\$ 525,344	\$ (525,344)	\$ -	\$ -
Year ended December 27, 1997	\$ -	\$ -	\$ -	\$ -
Year ended December 26, 1998	\$ -	\$ -	\$ -	\$ -

(A) Accounts written off during the year net of recoveries.
</TABLE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOUGHTIE'S FOODS, INC.

Dated: March 26, 1999

/s/ STEVEN C. HOUFEK

Steven C. Houfek

President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934,
this report has been signed below by the following persons on behalf of the
registrant and in the capacities and on the dates indicated.

Dated: March 26, 1999

/s/ STEVEN C. HOUFEK

Steven C. Houfek

President, Chief Executive
Officer and Director

Dated: March 26, 1999

/s/ MARION S. WHITFIELD, JR.

Marion S. Whitfield, Jr.

Senior Vice President and
Director (Principal
Financial and Accounting
Officer)

Dated: March 22, 1999

/s/ VERNON W. MULES

Vernon W. Mules

Director

Dated: March 23, 1999

/s/ ADOLPHUS W. HAWKINS, JR.

Adolphus W. Hawkins, Jr.

Director

Dated: March 23, 1999

/s/ DONALD B. RATCLIFFE

Donald B. Ratcliffe

Director

Dated: March 22, 1999

/s/ JAMES F. CERZA, JR.

James F. Cerza, Jr.

Director

Dated: March 25, 1999

/s/ WILLIAM R. WADDELL

William R. Waddell

Director

AGREEMENT
between
BAKERY, CONFECTIONERY, AND
TOBACCO WORKER'S
INTERNATIONAL UNION,
AFL-CIO, LOCAL NO. 66
and
DOUGHTIE'S FOODS, INC.

For the period:

November 2, 1998 through November 9, 2001

[Index omitted]

THIS AGREEMENT is made this 2nd day of November, 1998, by and between DOUGHTIE'S FOODS, INC., hereinafter referred to as "COMPANY" and the BAKERY, CONFECTIONERY, AND TOBACCO WORKER'S INTERNATIONAL UNION, Local No. 66, affiliated with the BAKERY, CONFECTIONERY AND TOBACCO WORKER'S INTERNATIONAL UNION, AFL-CIO hereinafter referred to as "UNION".

WITNESSETH

That for the purpose of mutual understanding and in order that a harmonious relationship may exist between the Company and the Union to the end that continuous and efficient service will be rendered to and by both parties for the benefit of both, it is hereby agreed that:

ARTICLE I. RECOGNITIONS & UNION SECURITY

Section 1. - Recognition

The Company recognizes the Union as the exclusive representative for the purpose of collective bargaining with respect to rates of pay, hours of employment of the employees and other conditions of employment in the classifications listed in Appendix A, attached hereto, located in its Portsmouth, Virginia plant and it's leased annex facility in Norfolk, Virginia. This recognition will not be extended to any new types of businesses the Company may develop unless that business is performed in the Portsmouth, Virginia plant or the currently leased annex facility in Norfolk, Virginia. Should Doughtie's Foods relocate its current facilities within the Hampton Roads area, the recognition criteria above would be extended to those new facilities.

Section 2. - Discrimination

Both of the parties to this Agreement agree that they will not discriminate against any employee or prospective employee because of his/her age, sex, religion, national origin or Union affiliation.

Section 3. - Plant Visitations

The business representative of the Union, bearing credentials from the Union, shall be allowed in the plant for the purpose of conducting Union business during working hours at reasonable times provided that there shall be no interference with work. Union representative will provide advance notice to the company and will check in with management upon arrival.

Section 4. - Union Initiation Fees and Dues

The Company will deduct from the pay of the employees covered by this agreement, who authorize it to do so, Union initiation fees and monthly dues during the time of this agreement, and any extension thereof, unless and until any such authority is revoked, in writing, by the employee who has authorized such deduction. It is further agreed that, in the event Union ceases to be the representative of the employees, all authorization for the said deductions shall be considered revoked, canceled and ineffective for any and all purposes. The Company shall be required to deduct Union fees and dues which it is authorized to deduct, as herein above provided, weekly in the amount of \$4.84 and the company shall not be required to deduct dues in excess of the current weekly dues and delinquent dues for two weeks. The Company agrees to remit once each month the total amount of fees and dues collected as hereinabove provided to such official as Union may designate.

The Company shall not be required to accept any authorization for such deductions unless such authorization is in the following form:

"ASSIGNMENT OF UNION DUES"

Date _____

I, _____, an employee of _____ hereby authorize said Company to deduct from my wages the sum of \$ _____ for initiation fee and each week thereafter my Union membership dues in accordance with the by-laws of the Bakery, Confectionery, and Tobacco Worker's International Union, Local No. 66, AFL-CIO, of which I am a member. I further authorize the amount so deducted to be turned over each month to the Financial Secretary of said Union.

This authorization and assignment shall be effective until the anniversary date of the current Labor Agreement between the Company and the Union, or for one year from the date hereof, whichever period shall be shorter. Upon failure to give the Bakery, Confectionery and Tobacco Worker's International Union, Local No. 66, and my employer written notice within ten (10) days before the anniversary date, that I do not want to renew this assignment, then this

agreement shall continue in force and effect and automatically renew itself for a period of one year and from year to year thereafter, until such notice is given.

Given under my hand and seal this _____ day of _____ ,

(SEAL)

Section 5. - Shop Steward

The union may appoint or elect members of this local to act as shop stewards, whose duty it shall be to see that this agreement is not broken by either the Company or the Union.

The shop steward or business representative of the Union will at all times, upon request, have the right to take up any questions with management, with or without the employee involved. This will be done at a time mutually agreed by both parties.

Section 6. - Joint Literacy Clause

The Company and the Union shall appoint a joint committee, which shall meet over the life of the agreement to develop joint approaches to promoting "work place literacy." The committee shall attempt to determine the extent to which the employees need to improve their reading and written communication skills and the extent to which instruction in the English language is needed. The committee shall also compile an estimate of what resources are needed to establish this program which will meet the needs of the employees and the company.

If the parties agree to establish such programs it is understood that the program will be funded by the company, and will include union participation in course design and content.

If an employee is taken off the job to participate in planning meetings, it is further agreed that the Company will pay the union members of the joint committee at their regular straight time spent at the meeting.

Section 7. - Technology Clause

The Company agrees to provide the training and retraining necessary for present employees to acquire the necessary skills to perform work on new equipment, including any newly created jobs, or to perform other work to which they might be reassigned or transferred. The Company will notify the department shop steward and the business agent or chief steward of these changes or job openings as they occur.

Section 8. - Orientation Clause

Upon hiring new employees, the Company agrees to introduce new employee to

department union steward.

Article II.

MANAGEMENT RIGHTS

Union recognizes that, subject to the express provisions of this agreement, the supervision, management and control of the Company's business operations, working forces and premises are exclusively vested in the Company. Without limiting the generality of the foregoing, Union recognizes that, subject to the express provisions of this Agreement, the following rights are vested exclusively in management: to plan, direct and control the Company's business, operation location, methods and working force; to hire, suspend, assign, promote, demote, transfer or lay-off employees and to discipline or discharge employees for just cause; to determine reasonable standards of performance; to introduce or discontinue any operation; and to require employees to observe the Company's rules and regulations not inconsistent with this Agreement.

Article III.

SENIORITY

Section 1. - Probationary Period

During the first sixty (60) calendar days of employment, a new employee shall be on a trial basis, shall not acquire seniority rights, and may be discharged at the discretion of the Company. Probationary employees will be supplied with temporary foot covering during this period in processing areas only.

Section 2. - Application of Seniority

In the matter of filling a job vacancy or in making lay-offs, and recalls, the ordinary rules of seniority and fitness for the work shall apply.

All employees have seniority rights in all departments.

Drivers with five (5) years of more seniority will not be used as extras more than once each week unless on the day they are extra, they end up running a route on the day they are an extra. Anytime during the week they are an "extra" and end up running a route will not count towards the "once-per-week" extra assignment rule. Additionally, Drivers with five (5) or more years seniority will not be considered for "extra" driver assignment on Saturdays without the Driver's permission.

Any employee's seniority shall be broken if he:

1. Quits.
2. Is discharged.
3. Is absent on any three (3) days without notice or excuse mutually agreeable to employer and employee.
4. Fails to report after a lay-off within seven (7) calendar days after the Company sends to the last address known to the Company a written notification to return to work.
5. Has been out of employment by the

Company for a period of six (6) months. 6. Has been out of bargaining unit for 91 days. 7. When two (2) or more employees are hired on the same day, the Company shall determine their relative seniority.

Section 3. - Job Vacancies

When new jobs are created or vacancies occur, notice of the availability of such job shall be posted for a period of seventy-two (72) hours (excluding Saturday and Sunday hours) for bids. In the event that an eligible bidder is on vacation during such seventy-two (72) hour period and the job is awarded to another employee, the vacationing employee shall have the right to bid on such jobs within forty-eight (48) hours of his/her returning from vacation. If the employee returning from vacation is the ultimately successful candidate, the previously selected employee shall be returned to his/her previous position at his/her prior rate of pay for such previous position.

The Company will move the transferred employee to the new position within 30 calendar days with the exception of special circumstances. Under no circumstances will the move not be made within 90 days without mutual agreement between the Company and the employee. The employee chosen for the job shall be given a fifteen (15) working day training period. The Company will evaluate the employee's performance with the employee within the fifteen (15) day training period if the employee's performance is unsatisfactory. An additional period of up to five (5) working days will be allowed, if required to allow the employee at least five working days to correct unsatisfactory performance. At the end of the training period of which he/she has not done the work satisfactorily, which determination shall be made solely by the Company, he/she shall be returned to his/her old job at his/her former rate of pay. If the training employee's job performance jeopardizes safety, equipment, or business, the employee shall be immediately removed from the new position and returned to their old job.

In the event of a vacancy occurring for a truck driver job, the successful bidder must have a Department of Motor Vehicle driving record acceptable by the Company, must pass a written examination for drivers, and also successfully be certified in a road test as possessing sufficient driving skill to operate safely the type of commercial motor vehicle used by the Company. (No unqualified employees will be required to operate a motor vehicle.). All other provisions set forth in the previous paragraph shall be applicable. Truck drivers must have a Department of Motor Vehicles driving record acceptable by the Company, and have a Commercial Drivers License.

Section 4. - Job Transfers

Job transfers between any classification will be authorized. Employees may not transfer into another position until after they have been employed one year. Employees with less than one year will be authorized to sign postings; but will not be eligible for transfer unless management authorizes. Employees with a disciplinary suspension on file within the last 180 days on the job will not be permitted to transfer. When an employee does transfer from one position to another, they will not be permitted to transfer

again for one year unless management initiates the transfer. If the senior person that has signed the job posting is disqualified for reasons above, the next senior person will be selected. If none of the employees signing the job posting is qualified, the position will be posted one additional time before the Company hires from outside the Company.

Section 5. - Extra Work (Does not apply to the continuation of regular shift work).

Extra work shall go to the employee with the most seniority in the employee's respective division (manufacturing or distribution) as long as this employee is qualified to perform the necessary job (which qualification will be determined by management). If no senior employee desires the extra work, the least senior employee is required to work. This does not apply to the continuation of regular shift work.

Section 6. - Lay-off

Lay-offs; with the exception of drivers, will be accomplished by seniority. Probationary employees shall be laid off first. If further layoffs are necessary, the last person hired shall be the first laid off. In the event of recall, employees shall be recalled in the reverse order of layoff subject to the same condition.

Truck Driver lay-offs; The driver with the least seniority will be the driver who will be laid off. If this driver has the lowest seniority in the Division, he will be on lay-off status. If this driver is not the lowest senior employee, this driver will be transferred to the lowest senior employee's job in their division. At that point the lowest senior person will go on lay-off status.

Article IV.

HOURS OF WORK & OVERTIME

Section 1. - Workweek

A. The regular workweek shall begin at 12:01 a.m. on Sunday and conclude at 12:00 p.m. midnight Friday and employees must report to work at any scheduled time except in the case of a bona fide emergency. An emergency shall be defined as a natural disaster, fire, any other act of God or a customer service related emergency. Employee must report to work when requested by their supervisor in the case of a bona fide emergency. Any employee required to work in excess of eight (8) hours in any day or forty (40) hours in any workweek shall be paid overtime as provided in this Agreement. All work performed on Saturday shall be paid at the rate of time and one-half (1 1/2).

B. It is agreed that six (6) minutes per day is a reasonable time for clocking in after the scheduled start time before any employee is considered tardy. If an employee punches in after the scheduled start time more than twice in any week, the six (6) minute grace period will be waived and the third late incident in a week will be considered a tardy for reporting purposes.

C. The day will begin at the posted scheduled time and end when the supervisor authorizes the employee to leave.

Section 2. - Posting of Work Schedule

Schedules should be posted on Wednesday of each week and in no case later than Thursday, showing the work days and hours of each employee for the workweek Sunday through Saturday. Every effort shall be made to adhere to this schedule as closely as possible but both parties should understand that some variable may occur due to the nature of the business.

Section 3. - Daily Guarantee and Call In

A. Each regular employee who reports for work upon request by management, shall be guaranteed not less than thirty-six (36) hours per week, provided they do whatever work is assigned to him or her. When a holiday occurs in a workweek, each employee shall be guaranteed not less than twenty-eight (28) hours work per week.

Such guarantee is contingent upon there being no emergency condition beyond the Company's control, which prevents or interferes with the normal operation of the business.

B. Whenever any truck driver is scheduled to report to work and does report at the time specified, such employee shall be guaranteed two (2) hours pay, provided that said employee remains on the job until released by the night dispatcher. The night dispatcher has permission to retain any driver if required by management. The two (2) hour pay will include the time while waiting for the dispatcher's release.

Drivers with higher seniority who come to work and find their route has been cut, can bump the driver with less seniority, only if the senior driver can perform the route within 1 1/2 hours of Roadnet time. Any driver who reports to work and then tells management that they cannot work for any reason will not be guaranteed two hours pay.

Section 4. - Overtime

A. Rate of Pay. Each employee shall be paid for all work performed in excess of eight (8) hours a day or forty (40) hours in a regular workweek at the rate of one and one-half (1 1/2) times his regular straight time hourly rate, whichever is greater but not both.

B. No Pyramiding of Overtime. Time and one-half (1 1/2) shall be paid on the weekly or daily basis, whichever is greater, but in no case both. In other words, any hours for which overtime is payable on a daily basis shall be set aside or excluded in determining the amount of overtime on a weekly basis.

C. Rest Period Overtime. Each employee is entitled to an unbroken rest period of at least twelve (12) hours between shifts, and any employee, except for truck

drivers, requested to work during his/her twelve (12) hour rest period shall be paid for such work at the rate of one and one-half (1 1/2) times his/her regular straight time hourly rate provided they do whatever work is assigned to them. Truck drivers should have at least an eight (8) hour rest period between shifts. No disciplinary action may be taken against a truck driver unless he/she has had his or her eight (8) hours rest period.

D. Offsetting of Overtime. No employee shall be given time off for the purpose of offsetting overtime.

Section 5. - Incentive Programs

The Union has agreed to allow the Company to initiate, install and operate incentive programs, which will allow employees to earn extra dollars over their regular pay.

Article V.

REST AND LUNCH PERIODS

Section 1. - Rest Periods

A. Each employee shall be given a fifteen (15) minute paid rest period during the third (3rd) hour of work and a fifteen (15) minute paid rest period during the seventh (7th) hour of work. An unpaid lunch period of thirty (30) minutes shall be given after the fourth (4th) hour of work and be completed by the end of five and one-half (5 1/2) hours of work. If any employee is required to work ten (10) or more hours in one day, an additional fifteen (15) minute period of rest shall be given such employee at the end of the tenth (10th) hour.

B. When a driver is required to work in excess of ten (10) hours in any one day, the Company shall provide a \$3.75 supper allowance to said employee. In the event of an emergency arising due to mechanical or tire failure beyond the driver's control which necessitates a delay beyond twelve (12) hours, the driver affected shall receive an additional \$1.25 supper allowance.

Section 2. - Physical Relief

Necessary physical relief will be granted within reason without discrimination of any source. Physical relief is defined as bladder, or intestinal relief. Freezer and Seafood Department workers will be permitted to come out of the freezer for five (5) minutes to get warm after any continuous exposure in the freezer of ninety (90) minutes.

Section 3. - Drinking Water

Cool drinking water is to be available at all times for the employees in their working areas.

Section 4. - Lunch Periods

A thirty (30) minute period shall be allowed for lunch each day, and such lunch

period shall be excluded from the working hours. In an emergency, which shall be determined solely by the Company, the Company may schedule a sixty (60) minute lunch period all of which time shall be excluded from working hours.

All employees, with the exception of drivers on the road, will be required to punch out and in for their lunch period.

Article VI. WAGES & CLASSIFICATIONS

The classifications and rate of pay are set forth in Appendix A, which is attached hereto and made a part hereof.

Article VII. HOLIDAYS/SICK LEAVE

Section 1. - Holidays

Each employee shall receive the following holidays with eight (8) hours pay:

New Years Day	Thanksgiving Day
Memorial Day	July 4th
Christmas Day	Labor Day

Those employees who work on a holiday shall observe a work holiday within ninety (90) days of such holiday. The exact day shall be mutually agreed upon by the Company and employee. If an employee is denied the day off that is requested to be taken as a result of having worked a holiday, they will be given an additional 30 day period to take the day off. The employee must complete and turn in to their supervisor a written extension request form which will be provided by Management.

In addition to the above holidays, an employee shall receive one personal holiday per calendar year of his/her choosing as long as fourteen (14) days notice is given to management. This holiday cannot conflict with another employee's personal holiday, or the three holiday weeks, or for Day Warehouse Shift employees, the week before the Food Show, which are set aside as "no vacation weeks" by management.

Section 2. - Qualifications of Holiday Pay

A. In order to receive pay for any such holiday, the employee must have been in the employ of the Company for at least thirty (30) calendar days and worked his/her regular scheduled work day preceding and his her regular scheduled work day next following such holiday. In the event that an employee is unable to complete his/her regular scheduled work day preceding, immediately following, or the day of the holiday, he/she shall receive a pro-rata amount of holiday pay in direct proportion to the hours worked on either day, provided that such employee is excused by his/her supervisor.

B. If an employee is required to work on a holiday, he/she shall receive one and one-half (1 1/2) times his/her regular straight time hourly rate for all hours

worked on such holiday in addition to his/her holiday pay. An employee who is scheduled to work on any holiday and does not work shall receive no pay for such holiday.

C. If an employee is absent on any such regular scheduled work day due to a bona-fide excuse or sickness that can be legitimately documented prior to or after a holiday, or on the actual holiday that said employee is scheduled to work, they shall receive their holiday pay provided they have performed work within the two (2) week period prior to the holiday week or during the holiday work week itself. In the event that a dispute arises over the legitimacy of documentation, the Company and the Union agree that it shall be resolved by the use of the grievance procedure, short of arbitration.

D. If an employee works on a holiday, the hourly rate of the holiday shall equal the pay of the job the employee is doing on that day.

Section 3. Sick Leave

Effective January 1, 1999, Employees will be entitled to two (2) paid sick days per calendar year. Any sick day paid will not be counted as a day of absence against the employee's attendance record.

Article VIII.

VACATIONS

Section 1.

Regular employees who work not less than 1600 hours in their anniversary year shall be entitled to vacation with pay, as follows:

One week.....	after one year of employment
Two weeks.....	after three years of employment
Three weeks.....	after eight years of employment
Four weeks.....	after twelve years of employment
Five weeks.....	after eighteen years of employment

Regular part-time employees are employees regularly scheduled to work at least three (3) six (6) hour work days a week. The yearly minimum work requirement of a part-time employee for vacation shall be 750 hours and after one (1) year of employment, part-time employees who qualify shall be given a pro-rated vacation based on the above schedule for regular employees.

No employee, either regular or part-time, shall be entitled to a vacation until he/she has been on the active payroll for period of one (1) year.

A regular employee or a regular part-time employee, who due to illness, injury, or pregnancy leave, works less than the time above required for a vacation, shall be entitled to a pro-rated vacation and pay therefore, based upon actual number of hours worked during the above required length of service for a vacation.

Section 2.

Vacation pay for regular employees shall be forty (40) times the employee's regular straight time hourly rate for each week of vacation.

In order to receive such vacation pay, an employee must leave work for the applicable vacation period.

Section 3.

If an employee has earned a two (2) or more weeks vacation, he/she may take his/her weeks consecutively. The vacation period shall be between January 1st and December 31st. The vacation schedule for the ensuing year shall be posted during the entire month of December and each employee shall select his/her vacation time therefrom for the ensuing year in accordance with their seniority: employees with eight (8) years or more seniority will make their selection during the first week; employees with five (5) years or more seniority will make their selection during the second week; employees with three (3) years or more seniority will make their selection during the third week and the remainder of the workforce will make their selection during the fourth week. A seniority list will be posted beside the vacation schedule so there will be no questions regarding seniority. When the vacation list has been approved by the Company, no changes will be made, except by mutual agreement and under no circumstances may a more senior employee "bump" a lesser senior employee.

Whenever a holiday listed in Article VIII, Section 1, falls within an employee's vacation period, the employee shall receive an extra day's pay in addition to his/her vacation pay if its is mutually agreeable to both the Company and the Union.

Because of peak demand in our business, the week before each of the following holidays will not be available to employees. These holiday weeks are Memorial Day, 4th of July and Labor Day. The week that the holiday is celebrated will be available. The week before the Food Show will not be available for Day Shift Warehouse employees.

Section 4.

Each employee shall receive his/her vacation pay immediately before his/her vacation starts.

Section 5.

Any employee whose service is terminated after his/her first service anniversary shall, unless he/she was discharged for dishonesty, be entitled to vacation pay in accordance with the following schedule:

Completed Months of Service	
Since Last Service Anniversary	Vacation Pay
-----	-----

Less than six (6) months.....	None
Six (6) months.....	6/12
Seven (7) months.....	7/12
Eight (8) months.....	8/12
Nine (9) months.....	9/12
Ten (10) months.....	10/12
Twelve (12) months.....	11/12

If an employee has been granted a vacation prior to the end of the anniversary year which entitled him to such vacation and fails to complete the year of service required for such vacation, he/she shall refund the Company the difference between the vacation pay he/she received and the pro-rated amount he/she would have been paid by reason of his/her service having terminated prior to the end of his/her anniversary year.

Article IX. LEAVES OF ABSENCE

Section 1. - Military Leaves

Company and Union agree to abide by the terms of the Selective Service and Training Acts, as amended from time to time, or any other applicable law.

Section 2. - Family and Medical Leave

The Company agrees to comply with all federal regulations pertaining to the 1978 Amendments to the Civil Rights Act of 1964 with reference to pregnancy discrimination and as well as the Family and Medical Leave Act.

Section 3. - Union Business Leave

The Company agrees, if reasonably possible, to give time off without pay, to any official of the Union who may have any Union business to which he/she has to attend at that time. The union official must notify the company in advance of schedule posting in writing of foreseen absences for union business. The Company will make reasonable exceptions for justifiable unforeseen union business reasons. The Company will notify the union official that permission has been granted or that they are requested to meet with the company to discuss the issue further as soon as reasonably possible. No more than two employees from each department shall be off at the same time to conduct union business. Any request for an exception to that number shall be submitted in advance to management who will not unreasonably withhold approval. Additionally, in the event that Union shall select an employee as Business Representative, the Company agrees to let him/her leave its employ with the understanding that he/she may return to work at any time with standing and seniority comparable to that which he/she enjoyed at the time he/she left.

Section 4. - Funeral Leave

It is agreed, in the event of a death in the immediate family, the employee

shall be granted three (3) days to attend the funeral. If any of these three (3) days are working days, the employee shall suffer no loss in pay. The requirements for the funeral leave period shall begin on the first full day of absence following death and end on the day of the funeral. If in the opinion of management, travel considerations in attending a funeral are involved, up to two (2) calendar days immediately following the funeral may be considered as part the funeral leave period. The term "immediate family" shall mean: Father, Mother, Son, Daughter, Brother, Sister, Husband, Wife, Father-in-law, Mother-in-law, Daughter-in-law, Son-in-law, Grandparents, and Grandchildren. Proof of death and relationship of deceased is necessary before funeral leave will be paid.

Section 5. - Jury Duty

Any full time employee who has been in the continuous employee of the Company for three (3) months or more, and who is required to serve as a juror shall be paid eight (8) hours daily at his or her regular straight time hourly rate (excluding premiums or overtime) less such amount of compensation allowed by the courts for his or her service, subject to the following conditions:

A. If on the day the employees serve on the jury they also work for the Company, they shall receive no extra compensation: if they work their regular gang time. In no event shall such difference payments exceed fifteen (15) work days in one (1) year because of required jury duty.

B. No difference payments for jury duty shall be paid to employees who fail to report for work and work the hours on any scheduled work day on which their service is not required in court.

C. Employees who have received an official summons to serve as jurors shall give notice and proof of such summons to their foreman a reasonable time in advance of the date on which they are to serve.

D. At the end of the employee's service as juror, the employee shall obtain from the Clerk of the Court statements showing the time served and the amount paid to them as compensation for their services as jurors and shall promptly submit such statements to the Time Office.

Section 6. Court Summons/Appearances

The Company agrees to allow unpaid time off for court dates provided proof is shown to the employee's supervisor in writing before the court date. The Company will determine the validity of the documentation.

Article X.

HEALTH AND WELFARE

Section 1. - General

The Company agrees to maintain the following Group Insurance Plan during the term of this agreement. This does not cover any work related accidents that are covered by Workers Compensation.

Schedule of Benefits:

- A. Death Benefit\$10,000.00
- Accidental Death and Dismemberment..... \$10,000.00
- Weekly Accident and Sickness Benefit.....up to \$175.00
(Maximum of thirteen (13) weeks)
- a. Equal to 66 2/3 percent of an employees straight time hourly wages with maximum of \$175.00 per week. b. Benefits shall begin on the first day of an accident and the fourth day of an illness.

B. Hospital/medical, dental and prescription drug coverage shall be available to employees at their option as provided under the terms and conditions stated in the current negotiated insurance policy . Premiums for employee and dependent coverage shall be paid by employees as provided in the attached Schedule A. Premiums for dependent and employee coverage shall be increased to cover the increased cost over and above the present coverage. The Company agrees to reopen negotiations on the hospital plan if a new hospitalization program is adopted by the Company if the new insurance carrier proposes to implement any changes that might affect contractually negotiated benefits.

Section 2. - Employee Compliance

Employees shall comply with all regulations of the Company insurance carrier in regard to all benefits provided in this article.

Section 3. - Employee Qualification

Any new employee shall qualify for such benefits upon the completion of ninety (90) days continuous full-time service.

Article XI. GENERAL PROVISIONS

Section 1. - Bulletin Boards

Enclosed bulletin boards shall be provided by the Company for official business. Other bulletin boards will be available for social notices. A signed copy of this agreement shall be posted on such.

Section 2. - Medical Examinations

The Company agrees to pay for any doctor's examination which may be necessary to obtain employment in the plant. If an employee is required to undergo a medical examination or drug/alcohol screening, the Company will pay the employee for time lost up to two hours unless the drug/alcohol screening results are positive.

Section 3. - Uniforms

The Company agrees to furnish all clothing and equipment currently necessary for the employee to do the required job without charge. Any employee leaving the Company must return any issued clothing or equipment. Failure to return any issued clothing or equipment upon leaving the Company will result in the replacement value of the missing item being withheld from the employee's final paycheck. It is understood that the truck drivers shall contribute \$2.50 per week to the laundering fee for the uniforms provided by the Company. The Company further agrees to furnish boots to production employees whose jobs necessitate wearing them.

Section 4. - Back Safety Support

The union has requested that back safety belts be worn by union employees when performing tasks that involve lifting. The company has agreed to purchase safety belts and split cost 50% with any employee wishing to wear such belt. The employee will initiate such request to obtain a belt with their supervisor.

The employee who receives such belt must adhere to the following procedures: a. The belt must be brought to work daily. b. The belt must be worn during the lifting portion of the job. c. Employees who fail to wear the safety belt will be written a "warning letter." On the third such "warning letter" the belt will become the sole property of the employee and 50% of the cost of the belt will be deducted from employee's payroll. The employee will at that time be released from the mandatory wearing of the belt. d. The manufacturer's warranty will determine the frequency of Company participation. e. Management may deny continued participation in the program if it determines that the belts create a health or safety problem.

Section 5. - Work by Supervisory Employees

No Supervisor shall perform any of the duties of any employee coming under the jurisdiction of this Agreement except in the case of an emergency. It is agreed that without limitation to other emergencies that may occur the following conditions shall be deemed to be emergencies when:

1) A scheduled employee fails to report to, or perform his/her work. 2) It is necessary for the supervisor to instruct an employee in how to perform his/her work. 3) During his/her scheduled work hours an employee becomes unable to perform his/her work by reason of physical disability.

Section 6. - Sickness

When an employee is sick, they must call in daily as soon as possible or at least by 30 minutes prior to the scheduled work hour. Any employee who is out sick for a period not exceeding two (2) days may return to work without a doctor's permit. If such employee is out sick three (3) days or more a doctor's permit will be required before he/she can return to work.

Section 7. - Rules and Regulations

Both the Company and Union agree to the necessity of Rules and Regulation governing the day-to-day operations of the business. Such rules and regulations have been in effect since May 28, 1973. A Copy of these rules and regulations are attached to this Agreement and are so noted as Exhibit A.

Article XII. NO STRIKE, NO LOCKOUT

Section 1. - General

The Company and the Union agree on the need of their service to the public without interruption. Both recognize the objective as necessary to the security of the Company and its people. Both, therefore, specifically pledge themselves to help assure that security by using the procedures agreed upon between them for the adjustment of disputes and grievances in all cases where there is any difference of opinion concerning the rights of either party under this contract, or the interpretation or application of any provision of it.

Section 2. - No Strike, No Lockout

The Union agrees that there will be no strike, slow down, or other interference with work by any or all of the employees during the life of this Agreement. The company agrees that no lockout against any or all of the employees shall take place during the life of this Agreement.

Section 3. - Discipline and Union Duties.

In the event of a walkout in violation of the above provision, any employee found guilty of instigating, fomenting, actively supporting or condoning such illegitimate strike shall be subject to discipline, including discharge. Union agrees that all possible steps will be taken to preclude or to terminate as soon as possible all strikes or contemplated strikes in violation of this Agreement.

Article XIII. GRIEVANCE AND ARBITRATION

Section 1.

In the event that a dispute arises at any time over wages, hours working conditions or any other aspect of this Agreement, such disputes shall be handled with the following procedure.

Section 2.

The procedure for the settlement or disposition of grievances shall be as follows:

Step 1: The matter will be submitted in writing and first be discussed

between the aggrieved employee, the employee's shift supervisor and the Union Steward if requested by the employee. Such discussion shall take place not later than ten (10) working days after the occurrence of the event giving rise to the grievance. The supervisor shall advise the employee and the Steward of his decision in writing within five (5) working days after the discussion has taken place.

Step 2: If the supervisor's decision is not acceptable to the Union, it may, within five (5) working days after the supervisor's answer, appeal the supervisor's decision by presenting the grievance in writing to the Director of Human Resources which is to be dated and signed by the aggrieved employee and an authorized Union representative.

A meeting between the designated Union Representative and the designated Company representative shall be held to discuss the grievance within five (5) working days after it has been presented to the Director of Human Resources. Within five (5) working days after this meeting has been held, the Company shall in writing advise the employee and the Union of its decision.

Step 3: If the Step 2 answer is not acceptable to the Union, it may within five (5) working days after receiving the Company's Step 2 answer appeal the grievance to the Director of Human Resources. A meeting between the Union Representative, the Company's Representative and the Director of Human Resources (or designated representative for any of them) shall be held to discuss the grievance within five (5) working days after it has been appealed to the Director of Human Resources. Within five (5) working days after this meeting has been held, the Company shall, in writing, advise the Union Representative of its position.

Section 3.

If a grievance has not been satisfactorily settled by the foregoing procedure, the Union, if it so desires, may request arbitration in accordance with the following Section by so advising the Company in writing within fifteen (15) working days after receiving the Company's decision under the third step of Section 2 of this Article.

Section 4.

When arbitration is requested by the Union, the parties within ten (10) working days after the request has been served upon the Company shall attempt to agree on the appointment of an impartial Arbitrator and if no agreement is reached the parties will jointly request the Federal Mediation and Conciliation Service to supply both parties with a panel of seven (7) impartial arbitrators. Either party shall have the right to reject one entire list and to request the submission of another panel. The parties shall alternately strike names from the list and the person whose name last appears shall be designated as the Arbitrator and his appointment shall be binding on both parties and the employees.

Section 5.

Any decision or award of an Arbitrator shall be final and binding on the Union, the Company and the employees.

Section 6.

In the event a discharge or suspension case is referred to an Arbitrator he shall have the authority to modify the penalty and order reinstatement with full, partial or no back pay. In the event a discharge or suspension grievance is taken to arbitration and a back pay award is determined to be appropriate by the Arbitrator, any interim earnings and unemployment compensation benefits received by the employee shall be deducted from the amount due.

Section 7.

The Company and the Union shall each pay their own costs incurred in connection with the arbitration. The expense of the neutral arbitration and the cost of the place for holding the hearing shall be shared equally between them.

Section 8.

Unless the time limits set forth in this Article are extended or waived in writing, failure to comply therewith will constitute a waiver of the grievance and the Company's last decision shall be final and binding. In the event a Company representative does not answer a grievance in any step within the time limit for the answer therein specified, the grievance may be presented to the next succeeding step within five (5) working days from the expiration of such time limit for the Company's answer.

Section 9.

It is expressly agreed and understood that no employee shall have the right to compel the arbitration of his/her grievance without the written consent of the Union.

Section 10.

The term "working days" as used in this Article means calendar days exclusive of Saturdays, Sundays and holidays.

Article XIV. SCOPE & APPLICATION OF THIS AGREEMENT

Section 1. - General

This agreement incorporates the full and complete understanding of the parties pertaining to the regulation of minimum wages and hours of employment of all the production and maintenance employees of the Company who come within its terms and are not excluded from its operation. This Agreement shall constitute a

complete accord and adjustment of all matters between the parties hereto and no complaint shall be filed or considered on account of anything, which has occurred prior to the execution hereof.

Section 2. - Severability

Any provision of this Agreement which may be in violation of State or Federal Acts, statutes, regulations or orders, or revision thereof, now effective or which become effective during the term of this Agreement, shall be considered void. In the event that any provision of this Agreement is thus void, the balance of the Agreement and its provisions shall remain in effect for the term of this Agreement.

Article XV.

PENSION

It is hereby agreed to provide pension and retirement benefits as follows:

A. The Company hereby agrees to be bound as a party by all the terms and provisions of the Agreement and Declaration of Trust dated September 11, 1955, as amended, established the Bakery and Tobacco Workers Unions and Industry International Pension Fund (hereby called the Fund) and said Agreement is made part hereof by reference.

B. Commencing with the last day of June 1977, the Company agrees to make payments to the Fund for each employee working in job classifications covered by the said Collective Bargaining Agreements.

Effective October 24, 1997, for each hour or portion thereof, for which an employee subject to the Collective Bargaining Agreements, receives pay, the Company shall make a contribution of sixty (60) cents to the above named pension fund, up to a maximum of forty (40) hours in any week.

For the purpose of this Article, it is understood that contributions shall be payable on behalf of employees from the first day of employment, whether said employees are permanent, temporary or seasonal, full-time or part-time employees, and regardless of whether or not they are members of the union.

C. The payment made in accordance with "B" above shall be allocated as follows: sixty (60) cents per hour to provide for a normal, reduced early retirement and disability pension (Plan A).

D. It is agreed that the pension plan adopted by the Trustees of the said pension fund shall be such as will qualify for approval by the Internal Revenue Service of the United States Treasury Department, so as to enable the Company to treat contributions to the pension fund as a deduction for income purposes.

E. It is hereby agreed to provide pension and retirement benefits as follows:

1. The Company hereby agrees to be bound as a party by all the terms and

provisions of the Agreement and Declaration of Trust dated September 11, 1995, as amended, establishing the Bakery and Confectionery Unions and Industry International Pension Fund (herein after called the Fund) and said Agreement is made part hereof by reference.

2. Commencing with the 1st day of _____ 19 _____, the Company agrees to make payments to the Bakery and Confectionery Union and International Pension Fund for each employee working in job classifications covered by the said Collective Bargaining Agreement as follows:

a. For each day or portion thereof, for which an employee subject to the Collective Bargaining Agreement, receives pay, the Company shall make a contribution of \$ _____ to the above named Pension Fund, up to a maximum of forty (40) hours in any week.

For the purpose of this Article, it is understood that contributions shall be payable on behalf of employees from the first day of employment, whether said employees are permanent, temporary, or seasonal, or full-time or part-time employees, and regardless of whether or not they are members of the Union. The term "Employee" does not include a self-employed person, corporate officer, owner or partner.

3. The payment made in accordance with "2" above shall be allocated as follows:

_____ per (day) (hour) to provide coverage for a Normal, Reduced, Early Retirement and Disability Pension (Plan A) _____ per (day) (hour) to provide coverage for Vested Deferred Pension (Plan B) _____ per (day) (hour) to provide coverage for an Age and Service Pension (Golden Ninety Plan C) _____ per (day) (hour) to provide coverage for an Age and Service Pension in the event of loss of covered employment due to a permanent reduction in force (Plan CC) _____ per (day) (hour) to provide coverage for an Age and Service Pension (Golden Plan G) _____ per (day) (hour) to provide coverage for Supplemental Pension (Plan D _____) _____ per (day) (hour) to provide Health Benefits for Pensioners in accordance with Plan W _____ of said Fund _____ per (day) (hour) to provide Health Benefits for Pensioners in accordance with Plan P _____ of said Fund

4. It is agreed that the Pension Plan adopted by the Trustees of said Pension Fund shall be such as will qualify for approval by the Internal Revenue Service of the United States Treasury Department, so as to enable the Company to treat contributions to the Pension Fund as a deduction for income tax purposes.

5. Contributions provided for herein shall be paid monthly and shall be accompanied by a completed remittance report. Both payment and report are due on the tenth (10th) day of the month following the month covered by the report. In the event the Company fails promptly to pay the amounts owed, the Company shall pay such collection costs, including court costs, and reasonable attorneys fees, as the Pension Fund shall incur, and shall pay interest at such a rate as the Trustees shall fix from time to time.

6. The payments so made to the Fund shall be used by it to provide retirement

benefits for eligible employees in accordance with the Pension Plan for said Fund, as determined by the Trustees of said Fund, to be applied to the eligible employees based on the amount of employer contribution.

7. This clause encompasses the sole and total agreement between the Company and the Union with respect to pensions or retirement.

8. This clause is subject in all respects to the provisions of the Labor Management Relations Act of 1947, as amended and to any other applicable laws.

Company _____ Bakery, Confectionery and Tobacco
Workers International Local Union No. _____

By _____ By _____

Date _____ Date _____

F. Notwithstanding any provisions, if any, to the contrary contained in the Collectible Bargaining Agreement between the Company and the Union, the Union shall have the right to strikes by giving the Company written notice of its intention to do so not less than forty-eight (48) hours in advance if the Company shall fail to make payment of the contribution due to the Fund for any month on or before the 10th day of the third calendar month following the month for which such be taken by the Union unless and until the Administrative Director of the Fund shall have certified in writing, to the Company and to the Union, that the Company has so failed to pay such contribution. Any strike pursuant to this provision shall be terminated as soon as the Company shall pay the delinquent contribution or shall make arrangements for the payment of it, which meets with the approval of the Administrative Director of the Fund.

G. The payments so made the Fund shall be used by it to provide retirement benefits for eligible employees in accordance with the Pension Plan of said Fund, as determined by the Trustees of said Fund, applied to the eligible employees based on the amount of employer contribution. The Company hereby affirms that he/she has no arrangement for the compulsory retirement of his/her employees except set forth herein.

H. This clause encompasses the sole and total agreement between the Company and the Union with respect to pensions or retirement.

I. This clause is subject in all respects to the provisions of the Labor Management Relations Act of 1947, as amended and to any other applicable laws.

Article XVI. SUCCESSOR CLAUSE

This Agreement shall be binding upon the parties hereto, their successors, administrators, executors and assigns.

This Agreement shall become effective as of 12:01 a.m. on November 2, 1998, and shall continue to be in full force and effect until November 9, 2001 at midnight and thereafter from year to year, unless either party hereto shall notify the other by registered letter or certified letter, mailed not less than sixty (60) days prior to November 9, 2001, or any anniversary date thereof, of desire to modify or terminate same, provided, however, in the event any change is made by law, governmental/ruling or regulation in minimum rate of pay or in the present requirement for pay at time and one half (1` 1/2) the regular hourly rate of pay for hours worked in excess of forty (40) hours in any work week, which change requires an adjustment of the wages and/or hours of an employee covered by this Agreement. Either party may elect to reopen this Agreement as of the effective date of any such law, governmental regulation or ruling, for the sole purpose of renegotiating the wage schedule or work week and overtime provision in the said contract or both, depending on which items are affected by such laws, rulings or regulations, by notifying

Doughtie's Foods, Incorporated Bakery, Confectionery and Tobacco
Workers International Local Union No. 66

By /s/ W. G. Ratliff

By /s/ Barry W. Baker

Vice President-Operations

(Title)

BCTWIU International Representative

(Title)

Witness

Witness

By /s/ Sharon R. Stevens

By Thomas C. Perry

Appendix "A"--[intentionally omitted]

Exhibit "A"--[intentionally omitted]

Schedule "A"--[intentionally omitted]

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name of Corporation

State of Incorporation

TWB Gourmet Foods, Inc.

Virginia

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-56951) of our report dated February 10, 1999 appearing under Item 8 of Doughtie's Foods, Inc.'s Annual Report on Form 10-K for the year ended December 26, 1998.

/s/ PricewaterhouseCoopers LLP

Virginia Beach, Virginia
March 25, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF DOUGHTIE'S FOODS, INC. AND ITS SUBSIDIARIES FOR THE YEAR ENDED DECEMBER 26, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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