

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2000-08-14** | Period of Report: **2000-06-30**

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### FILER

#### SFC NEW HOLDINGS INC

CIK: **1088961** | IRS No.: **522173533** | State of Incorporation: **DE** | Fiscal Year End: **1231**

Type: **10-Q** | Act: **34** | File No.: **333-83063** | Film No.: **699603**

SIC: **2050** Bakery products

#### Mailing Address

520 LAKE COOK RD  
SUITE 550  
DEERFIELD IL 60015

#### Business Address

520 LAKE COOK RD  
SUITE 550  
DEERFIELD IL 60015  
8474055300

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2000  
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Commission File Number 33-383063  
-----

SFC New Holdings, Inc.  
-----

(Exact name of registrant as specified in its charter)

State of Delaware  
-----

52-2173533  
-----

(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

520 Lake Cook Road, Suite 550, Deerfield, IL 60015  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (847) 405-5300  
-----

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes

X

No  
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The number of shares outstanding of the Registrant's common stock as of August 14, 2000 was 100 shares of common stock.

## SFC NEW HOLDINGS, INC. AND SUBSIDIARIES

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL INFORMATION

## SFC NEW HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(\$ In thousands)

&lt;TABLE&gt;

June 30, December 31,

		2000	1999
		----	----
<S>	<C>	<C>	<C>
Assets	(unaudited)		
Current assets:			
Cash and cash equivalents	\$ 32,806	\$ 28,545	
Accounts receivable, net	31,983	15,826	
Inventories	14,031	10,895	
Net assets of discontinued operations	-	169,980	
Other current assets	21,084	8,680	
	-----	-----	
Total current assets	99,904	233,926	
Property, plant, and equipment, net	63,566	67,248	
Intangible assets, net	112,208	96,954	
Other noncurrent assets	24,767	29,564	
	-----	-----	
Total assets	\$ 300,445	\$ 427,692	
	=====	=====	
Liabilities and Stockholders' Equity			
Current liabilities:			
Current maturities of long-term debt	\$ 351	\$ 2,867	
Accounts payable	14,600	12,999	
Accrued expenses	33,161	44,700	
	-----	-----	
Total current liabilities	48,112	60,566	
Long-term debt (Note 5)	374,633	841,115	
Due to Specialty Foods Acquisition Corporation	7,491	7,507	
Other noncurrent liabilities	12,734	22,615	
	-----	-----	
Total liabilities	442,970	931,803	
Stockholders' equity	(142,525)	(504,111)	
	-----	-----	
Total liabilities and stockholders' equity	\$ 300,445	\$ 427,692	
	=====	=====	

</TABLE>

See accompanying notes to condensed consolidated financial statements.

(Unaudited)  
(\$ In thousands)

<TABLE>

	Three months ended June 30,		Six months ended June 30,	
	2000	1999	2000	1999
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 74,937	\$ 76,067	\$ 144,554	\$ 145,424
Cost of sales	31,026	31,711	61,082	61,955
	-----	-----	-----	-----
Gross profit	43,911	44,356	83,472	83,469
Operating expenses:				
Selling, distribution, general and administrative	40,117	43,623	78,942	83,474
Amortization of intangibles	818	706	1,522	1,405
	-----	-----	-----	-----
Total operating expenses	40,935	44,329	80,464	84,879
	-----	-----	-----	-----
Operating profit (loss)	2,976	27	3,008	(1,410)
Other expenses:				
Interest expense, net	13,604	23,292	39,355	46,785
Third-party financing fees	-	8,405	-	8,405
Other expense, net	949	2,580	1,583	3,063
	-----	-----	-----	-----
Loss before income taxes	(11,577)	(34,250)	(37,930)	(59,663)
Provision for income taxes	96	35	183	46
	-----	-----	-----	-----
Loss from continuing operations	(11,673)	(34,285)	(38,113)	(59,709)
Discontinued operations:				
Net income (loss)	-	11,798	(454)	17,585
Gain (loss) on disposal, net	(3,434)	29,826	410,876	29,826
	-----	-----	-----	-----
	(3,434)	41,624	410,422	47,411
	-----	-----	-----	-----

Income (loss) before extraordinary item	(15,107)	7,339	372,309	(12,298)
Extraordinary item	(7,870)	-	(10,723)	-
	-----	-----	-----	-----
Net income (loss)	\$ (22,977)	\$ 7,339	\$ 361,586	\$ (12,298)
	=====	=====	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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# SFC NEW HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(Unaudited)  
(\$ In thousands)

<TABLE>

	Six months ended June 30,	
	2000	1999
	----	----
	<C>	<C>
Cash flows from operating activities:		
Loss from continuing operations	\$ (38,113)	\$ (59,709)
Adjustments to reconcile to net cash used by continuing operating activities		
Depreciation and amortization	9,883	7,992
Debt issuance cost amortization	3,961	5,427
Accretion of interest	990	498
Changes in operating assets and liabilities, net of effects from businesses acquired or sold	(36,479)	(3,981)
	-----	-----
Net cash used by continuing operating activities	(59,758)	(49,773)
Net cash used by discontinued operations	(8,979)	(12,311)
	-----	-----
Net cash used by operating activities	(68,737)	(62,084)
Cash flows from investing activities:		
Proceeds from divestitures of businesses	567,381	117,886

Acquisition of business	(22,464)	-
Capital expenditures	(2,980)	(4,232)
Other	1,048	2,098
	-----	-----
Net cash provided by investing activities	542,985	115,752
Cash flows from financing activities:		
Increase (decrease) in revolving credit	(97,801)	22,801
Refinancing costs	-	(18,011)
Payments on long-term debt	(372,186)	(2,156)
Other	-	216
	-----	-----
Net cash provided (used) by financing activities	(469,987)	2,850
Increase in cash and cash equivalents	4,261	56,518
Cash and cash equivalents - beginning of period	28,545	5,714
	-----	-----
Cash and cash equivalents - end of period	\$ 32,806	\$ 62,232
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

#### NOTE 1 - GENERAL

In the opinion of management, the accompanying unaudited interim condensed financial information of SFC New Holdings, Inc. and its subsidiaries (collectively, the "Company") contains all adjustments, consisting only of those of a normal recurring nature, except as otherwise indicated, necessary to present fairly the Company's financial position and results of operations. All significant intercompany accounts, transactions and profits have been eliminated.

These financial statements are for interim periods and do not include all information normally provided in annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 1999 included in the annual report filed on Form 10-K and any reports on Form 8-K filed during the current fiscal year. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

Certain amounts in the 1999 financial statements have been reclassified to conform to the manner in which the 2000 financial statements have been presented.

## NOTE 2 - Inventories

The components of inventories are as follows:

<TABLE>

	June 30, 2000 ----	December 31, 1999 ----
	(In thousands)	
<S>	<C>	<C>
Raw materials and packaging	\$ 6,575	\$ 5,275
Work in progress	206	190
Finished goods	5,992	4,158
Other	2,057	1,742
	-----	-----
	14,830	11,365
Less obsolescence and other allowances	(799)	(470)
	-----	-----
	\$ 14,031	\$ 10,895
	=====	=====

</TABLE>

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in first-out ("FIFO") method.

## NOTE 3 -Divestitures

During March 2000, the Company completed the sale of its subsidiary, Metz Baking Company ("Metz"), to the Earthgrains Company. In addition, in April 1999, the Company sold its subsidiary, H&M Food Systems Company, Inc. ("H&M"), to IBP. These divestitures have been reported as discontinued operations in the accompanying financial statements in accordance with Accounting Principles Board Opinion No. 30. The net gain on disposal of discontinued operations reported in the Condensed Consolidated Statements of Operations relates to the sale of these subsidiaries.

The net assets of Metz are reported as a single line item in the Company's Condensed Consolidated Balance Sheet for December 31, 1999 and the pre-divestiture operating results



of Metz and H&M are reported in the discontinued operations section of the accompanying Condensed Consolidated Statements of Operations. No interest expense has been allocated to discontinued operations.

#### NOTE 4 - Acquisitions

On January 20, 2000, the Company completed the acquisition of the Lew-Mark Baking Company for \$23,100. Lew-Mark Baking held the exclusive license to the Archway brand in the states of New York and New Jersey. Its 1999 sales approximated \$25,000.

#### NOTE 5 - Debt

Concurrent with the Metz closing, the Company has paid in full amounts outstanding under the Revolving and Term Loan facilities totaling \$265,611 and terminated these arrangements. Additionally, in April 2000, the Company commenced offers to purchase, in two separate offers, (i) any and all of its \$150,000 issue of 12 1/8% Senior Notes and (ii) \$54,000 of its 11 1/4% Senior Notes. On May 15, 2000, the Company completed the tender offers and paid the following amounts: (i) \$149,905 of the 12 1/8% Senior Notes and (ii) \$54,000 of the 11 1/4% Senior Notes on a pro rata basis. Any notes not tendered or returned in the tender offers remain obligations of the Company and will continue to accrue interest and have all of the benefits of the indenture pursuant to which such notes were issued.

Due to this early extinguishment of debt, the Company wrote off deferred debt issuance costs related to these debt instruments of \$7,870 and \$10,723, respectively, during the three and six-month periods ended June 30, 2000 and recorded the write-off as an extraordinary item in the accompanying financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Seasonality

The Company's businesses are moderately seasonal with lower sales, operating profit, and cash flows generally occurring in

the first quarter of the year. This seasonality is due primarily to higher cookie and specialty bread/cafe sales in the summer months, as well as in the winter holiday season.

## Results of Operations

### COMPARISON OF SECOND QUARTER 2000 TO SECOND QUARTER 1999

Consolidated net sales from continuing operations decreased 1.6% to \$74.9 million in 2000 compared to \$76.1 million in 1999. The decrease in net sales was primarily due to the Company's exit from non-core cookie product lines.

The Company's gross profit margin percentage increased to 58.6% in 2000 from 58.3% in 1999 principally due to favorable commodities and product mix at Mother's/Archway.

Selling, distribution, and general and administrative ("SDG&A") expenses decreased \$3.5 million in 2000 to \$40.1 million primarily due to lower employee benefit and trade promotion cost levels.

Interest expense, net decreased \$9.7 million in 2000 to \$13.6 million from \$23.3 million in 1999. The decrease resulted from: (i) the payoff of the revolver and term loan and payments made on the 12 1/8% and 11 1/4% Senior Note tender offers as discussed in Note 5 and (ii) increased interest income in 2000.

As a result of the above factors, net loss from continuing operations decreased to \$11.7 million in 2000 compared to \$34.3 million in 1999.

The Company reports minimal state income tax and no federal income tax due to its net operating loss position for tax purposes.

### SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO SIX MONTHS ENDED JUNE 30, 1999

Consolidated net sales from continuing operations decreased 0.6% to \$144.6 million in 2000 compared to \$145.4 million in 1999. The decrease in net sales was primarily due to the Company's exit from non-core cookie product lines.

The Company's gross profit margin percentage increased to 57.8%

in 2000 from 57.4% in 1999 primarily due to lower commodity costs and a favorable product mix at Mother's/Archway.

Selling, distribution, and general and administrative expenses decreased \$4.6 million in 2000 to \$78.9 million primarily due to lower employee benefit and trade promotion cost levels.

Interest expense, net in 2000 decreased \$7.4 million to \$39.4 million from \$46.8 million in 1999. The decrease resulted from: (i) the payoff of the revolver and term loan and payments made on the 12 1/8% and 11 1/4% Senior Note tender offers as discussed in Note 5 and (ii) increased interest income.

As a result of the above factors, net loss from continuing operations decreased to \$38.1 million in 2000 compared to \$59.7 million in 1999.

The Company reports minimal state income tax and no federal income tax due to its net operating loss position for tax purposes.

Because of the highly leveraged status of the Company, earnings before interest, taxes, depreciation, and amortization ("EBITDA") is an important performance measure used by the Company and its stakeholders. The Company believes that EBITDA provides additional information for determining its ability to meet future debt service requirements. However, EBITDA is not indicative of operating income or cash flow from operations as determined under generally accepted accounting principles. The Company's EBITDA from continuing operations for the three and six-month periods ended June 30, 2000 and 1999 is calculated as follows:

<TABLE>

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2000	1999	2000	1999
	-----			
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Operating Profit	\$ 2,976	\$ 27	\$ 3,008	\$ (1,410)
Depreciation and amortization	5,018	4,334	9,883	7,992
	-----	-----	-----	-----
EBITDA	\$ 7,994	\$ 4,361	\$ 12,891	\$ 6,582
	=====	=====	=====	=====

</TABLE>

Net cash used in operating activities for the six months ended June 30, 2000 totaled \$68.7 million. Net cash used by continuing operating activities included seasonally high levels of cash pay interest, the termination of the accounts receivable facility and the related repurchase of Mother's and Archway's receivables, the legal settlement with respect to the ongoing Cacique case and amounts required to collateralize remaining letters of credit. In 1999, cash used by operating activities of \$62.1 million was principally driven by interest, working capital requirements and the cash requirements for discontinued operations.

Net cash provided by investing activities totaled \$543.0 million in 2000 and is primarily due to the proceeds from the sale of Metz, offset by the cost of the Lew-Mark Baking Company acquisition and planned capital expenditures. Net cash provided by investing activities totaled \$115.8 million in 1999 and is primarily due to the proceeds from the sale of H&M, offset by planned capital expenditures.

Net cash used in financing activities totaled \$470.0 million in 2000 due to payments made to terminate the Revolving Credit and Term Loan facilities and payments made on the 12 1/8% and 11 1/4% Senior Note tender offers. Net cash provided by financing activities totaled \$2.9 million in 1999 principally due to increased revolver borrowings, offset by payments of debt refinancing costs.

Based upon the above, the net increase in cash in 2000 and 1999 was \$4.3 million and \$56.5 million, respectively.

As of June 30, 2000 the Company had a cash balance of \$32.8 million. Management believes that available funds should be adequate for near-term operating needs. However, there can be no assurances that available funds will be adequate to meet such needs.

As reported in the Form 8-K filed June 16, 2000, the Company announced an agreement (the "Agreement") with the holders ("Holders") of a major portion of its 13 1/4% Senior Subordinated Discount Debentures, 13% Senior Secured Discount Debentures and 11% Senior Subordinated Discount Debentures in order to facilitate certain strategic options that the Company is currently exploring. The Agreement does not require the Company to pursue any particular course of action but provides a methodology for the allocation of sale proceeds and other assets to its stakeholders in the event of a sale of the Company's remaining assets and the receipt of customary approvals. The Agreement provides that under certain circumstances other stakeholders may receive less than full value. The Agreement is binding on current Holders who have signed the Agreement and

subsequent transferees of those Holders' notes. The Company believes that this Agreement will enhance its ability to pursue options that will maximize the value for its businesses for all of its stakeholders.

#### Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995

This Form 10-Q contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q, the words "anticipates", "intends", "plans", "believes", "estimates", "expects", and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company's highly leveraged capital structure, its substantial principal repayment obligations, weather, economic and market conditions, cost and availability of raw materials, competitive activities or other business conditions. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or

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to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors. Further, management cannot assess the impact of each such factor on the Company's actual business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

#### PART II - OTHER INFORMATION

##### Item 4: Submission of Matters to a Vote of Security Holders

The annual meeting of the stockholders of the Company was held on June 14, 2000 in Deerfield, Illinois. The stockholders of the Company took the following actions at the annual meeting:

1. The stockholders elected the following directors of the Comapny to

serve for the term expiring on the date of the next annual meeting or until their respective successors are duly elected and qualified: Messrs. Thomas J. Baldwin, Lawrence S. Benjamin, J. Taylor Crandall, Robert B. Haas, Jerry M. Meyer, Andrew J. Nathanson, David G. Offensend, Marc A. Particelli, Anthony P. Scotto and Douglas D. Wheat. An aggregate of 59,848,733 shares were cast in favor of the election of each of the directors: none were cast against.

2. The stockholders ratified and approved the appointment of KPMG Peat Marwick LLP as the Company's independent auditors for the Company's 2000 fiscal year. An aggregate of 59,848,733 shares were cast in favor of the action: none were against.

Item 6: Exhibits and Reports on Form 8-K

- (a) See Exhibit Index filed herewith.
- (b) On May 26, 2000, the Company filed a report on Form 8-K regarding the escrow related to the H&M sale.
- (c) On June 16, 2000, the Company filed a report on Form 8-K discussing an agreement with the holders of a major portion of its 13 1/4% Senior Subordinated Notes, 13% Senior Secured Discount Debentures and 11% Senior Subordinated Discount Debentures in order to facilitate certain strategic options that the Company is currently exploring.
- (d) On July 10, 2000, the Company filed a report on Form 8-K regarding the settlement of the claim submitted by the buyer of H&M Food Systems, Inc.
- (e) On July 24, 2000, the Company filed a report on Form 8-K regarding operating results for the period ended June 30, 2000.

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SIGNATURE

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Pursuant to the requirements 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.

SFC New Holdings, Inc.

-----

(Registrant)

-----

By:

Date: August 14, 2000

/s/ Robert L. Fishbune

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Robert L. Fishbune  
Vice President and Chief  
Financial Officer

EXHIBIT INDEX

Exhibit Number -----	Description of Document -----
10.55*	Form of 2000 Specialty Foods Corporation Annual Bonus Plan
10.56*	Archway - Mother's Cake & Cookie Co. Amended and Restated Annual Bonus Plan, 2000
10.57*	Andre-Boudin Amended and Restated Annual Bonus Plan, 2000
10.58*	Mother's Cake & Cookie Co. Second Amended and Restated Supplemental Long Term Incentive Plan for Key Employees
27*	Financial Data Schedule

\_\_\_\_\_

\*Filed Herewith.

SPECIALTY FOODS CORPORATION

ANNUAL BONUS PLAN  
2000

ANNUAL BONUS PLAN

1. PURPOSES

Specialty Foods Corporation ("SFC") has established the Annual Bonus Plan (the "Plan") as a vehicle for motivating and rewarding designated executives whose responsibilities have a significant impact on the key short-term business objectives of SFC. Annual incentive awards are determined by the relative success of SFC and in achieving specific annual business objectives. The Plan provides the opportunity for participants to receive incentive compensation when results meet or exceed these pre-established goals.

2. DEFINITION OF TERMS

The following defined terms will have the meanings set forth below for purposes of the Plan:

- a. Annual Salary shall mean the annualized base salary in effect for a Participant on December 31, 2000.
- b. Approval Date shall mean the date of approval of the Plan by the Compensation Committee.
- c. Award shall mean the cash payment made to Participants under the Plan.
- d. Cause shall mean the Participant's admission or conviction of a felony, the Participant's commission of an act of dishonesty in the course of his or her duties, the Participant's repeated disregard of policy directives of SFC or the Subsidiaries, or the Participant's breach of his or her fiduciary responsibilities or duties as an employee of SFC or the Subsidiaries.
- e. Compensation Committee shall mean the committee designated as such by the Board of Directors of SFC.



- f. Change of Control shall mean the date, if any, at which (i) with respect to SFAC, a person or group (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) other than Acadia Partners, L.P., Keystone, Inc., HWP Partners, L.P. and their respective Affiliates (as defined in Section 2.1(a) of the Principal Stockholders Agreement) (such person or group being a "Non-Affiliate") has the collective ability to directly or indirectly designate a majority of the members of the SFAC Board (whether by contract or otherwise) or (ii) with respect to SFC, a transaction is consummated (including a sale, merger or other similar transaction, but excluding any transaction among only SFAC, SFC and or their subsidiaries) (x) pursuant to which all or substantially all of the assets of SFC are sold or otherwise transferred to Non-Affiliates (the sale of Mother's Cake and Cookie Co. and Archway Cookies, Inc. to be deemed such a sale) (y) pursuant to which Non-Affiliates acquire the collective ability to designate directly or indirectly a majority of the Board of Directors of SFC (by contract or otherwise) or (z) which the Compensation Committee of the Board of Directors of SFC determines, in its discretion, to be a change of control.
- g. Participant shall mean an employee designated by the Compensation Committee to participate in the Annual Bonus Plan, provided the authority to designate Participants may be delegated by the Compensation Committee to SFC.
- h. Performance Objectives shall mean the performance objective of SFC determined by the Compensation Committee for the Plan Year.
- i. Plan shall mean this Annual Bonus Plan.
- j. Plan Year shall mean January 1, 2000 through December 31, 2000.
- k. SFC shall mean Specialty Foods Corporation.
- l. Subsidiary shall mean a direct or indirect subsidiary of SFC which is included in SFC's consolidated tax return.

### 3. ELIGIBILITY FOR PARTICIPATION

An Award may be granted for the Plan Year to each Participant who is in active service during the Plan Year and shall include the employees identified on Annex A.

### 4. PERFORMANCE OBJECTIVES

Performance Objectives shall be recommended by the Chief Executive Officer of SFC and approved by the Compensation Committee for the Plan Year and will be reflected in the attached Annex B entitled "2000 Annual Bonus Plan Performance Objectives."

## 5. ADMINISTRATIVE GUIDELINES

### a. Adjustments in Financial Performance Measurements

In order to effectuate the purpose of the Plan, the Compensation Committee may make adjustments in the criteria established for the Plan Year which reflect any extraordinary changes that may have occurred during the Plan Year or which significantly alter the basis upon which such performance levels were determined. Such changes may include, without limitation, changes in acquisitions, accounting practices, tax, regulatory or other laws or regulations, divestitures, financings, or economic changes not in the ordinary course of business cycles. Any adjustments made by the Compensation Committee can be made at any time and in any manner that the Compensation Committee in its sole discretion deems appropriate, and any and all such adjustments shall be conclusive and binding upon all parties concerned.

### b. Vesting of Awards

As of the Approval Date, the Participant shall have earned and shall be fully vested in his or her Award, which Award shall be paid to the Participant at the time that such payment is to be made if all conditions with respect to the payment of such amount, as set forth in this Plan, are met. If such conditions are not met, no Award payment shall be made.

### c. Payment of Bonus Awards

Award payments will normally occur concurrently with payment for the last pay period in February of the year following the Plan Year. Payments will normally be made by ordinary payroll methods.

### d. Payment of Award Upon Change of Control

Upon a Change of Control, a Participant shall receive his or her Award under the Plan. Award payments shall be made no later than one day following a Change of Control and such payments shall be pro rated on the basis of the portion of the Plan Year having actually elapsed through the date of the Change of Control.

## 6. GENERAL RULES

### a. Effective Date. This Plan shall have an effective date of January 1, 2000.

- b. Amendment. The Plan has been adopted by the Board of Directors of SFC and may be amended from time to time, in any respect, by such Board. Any such amendment may add to, amend, reduce or cancel any and all rights in regard to the Plan.
- c. Administration. The Compensation Committee shall be responsible for the general operation and administration of the Plan and shall have the authority to interpret the Plan and to adopt administrative rules and regulations governing its operation, provided that the Compensation Committee may delegate this responsibility to any officer of SFC.
- d. Termination. The Plan may be terminated at any time by the Board of Directors of SFC. Upon such termination, all rights of a Participant to amounts not then awarded to Participants shall be null and void. However, amounts previously accrued through the date of the Plan termination shall not be affected.
- e. Continued Employment. Participation in the Plan shall not give any employee any right to remain in the employment of SFC. The Plan is not to be construed as a contract of employment for any period and does not alter the "employee-at-will" employment status or employment agreement of any Participant.
- f. Employment Taxes. Award payments under the Plan shall be treated as wages and shall be subject to income, FICA and any other applicable withholding taxes and deductions at the time received as required by applicable law or regulation, as in effect from time to time.
- g. Employment Agreements. If a Participant is party to an employment agreement, the terms of which relate to annual bonuses and which are inconsistent with the terms of this Plan, the terms of such employment agreement shall govern to the extent of such inconsistency.
- h. Unfunded Plan. The obligations under this Plan shall be unfunded. Neither SFC nor any of the Subsidiaries shall be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan.
- i. Successors Bound. The rights and obligations of the Company hereunder shall inure to the benefit of and be binding upon the successors of the Company.
- j. Assignment. Participants shall not assign any rights

granted to them by the terms of this Plan or encumber in any way their interests herein; provided, however, that in the event of a Participant's death, any payments then due and owing will be made when due prorated to the date of death.

- k. Effect of Plan. This Plan shall have a term expiring on the earlier of (1) the date on which all Awards earned under the Plan, if any, are paid to Participants and (2) the date on which a determination is made by the Compensation Committee that no Awards have been earned under the Plan (provided that the authority to determine that no Awards have been earned under the Plan may be delegated by the Compensation Committee to SFC). At such time, the Plan shall expire and be of no further force or effect.
- l. Governing Law/Jurisdiction. The substantive law (and not the law of conflicts) of the State of Illinois will govern all questions concerning the construction, validity and interpretation of this Plan and the performance of the obligations imposed by this Plan. The parties hereby waive their rights to request or demand a trial by jury in the event controversy arises under this Plan.
- m. Headings. The headings used herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Plan.

SPECIALTY FOODS CORPORATION

AMENDED AND RESTATED

ANNUAL BONUS PLAN, 2000

ARCHWAY - MOTHER'S COOKIE COMPANIES

AMENDED AND RESTATED

ANNUAL BONUS PLAN

1. PURPOSES

Specialty Foods Corporation ("SFC") has established the Annual Bonus Plan as a vehicle for motivating and rewarding designated executives whose responsibilities have a significant impact on the key short-term business objectives of SFC and its Subsidiaries (as hereinafter defined) and for encouraging retention of such executives through the Retention Date (as hereafter defined). Annual incentive awards are determined by the relative success of SFC and its Business Units (as hereinafter defined) in achieving specific annual financial objectives. The Plan provides the opportunity for participants to receive incentive compensation when financial results meet or exceed these pre-established goals. This Plan supersedes the Archway-Mother's Cookie Companies Annual Bonus Plan 2000 effective January 1, 2000.

2. DEFINITION OF TERMS

The following defined terms will have the meanings set forth below for purposes of the Plan:

- a. Annual Salary shall mean the annualized base salary in effect for a Participant on December 31, 2000 or on the date of a Change of Control that occurs prior to December 31, 2000.
- b. Award shall mean the cash payment made to Participants under the Plan.
- c. Business Unit shall mean a subsidiary or a group of subsidiaries for which a target bonus is established by SFC. For purposes of this Plan, "Business Unit" shall mean Mother's Cake

and Cookie Co., Archway Cookies, L.L.C. and Lew-Mark Baking.

- d. Cause shall mean the Participant's admission or conviction of a felony, the Participant's commission of an act of dishonesty in the course of his or her duties, the Participant's repeated disregard of policy directives of SFC or the Subsidiaries, or the Participant's breach of his or her fiduciary responsibilities or duties as an employee of SFC or the Subsidiaries.
- e. Change of Control shall mean a sale or transfer, directly or indirectly, of all of the outstanding stock of the Business Unit or substantially all of the assets of the Business Unit to an unaffiliated entity.
- f. Compensation Committee shall mean the committee designated as such by the Board of Directors of SFC.
- g. EBITDA shall mean, with respect to any Business Unit, an amount reasonably determined by SFC as such Business Unit's income from operations (including annual bonus accruals as an expense), plus depreciation of property, plant and equipment, and amortization of intangible assets, but not including gain/loss on asset sales. EBITDA shall exclude \$2.0 million related to the unbudgeted pension benefit from the sale of Metz Baking Company. The actual incremental 2000 EBITDA benefits related to acquisitions made in 2000 (other than Lew-Mark), if any, will also be excluded for purposes of determining 2000 EBITDA.
- h. Good Reason shall mean the occurrence and continuation at any time following a Change of Control of any of the following (without the Participant's express prior written consent) after written notice provided by the Participant and the failure by the Business Unit or its successors to remedy such event within thirty (30) days after receipt of such notice:
  - (i) a reduction in the Participant's Base Salary;
  - (ii) a relocation of the Participant's principal place of business to any location which is not within 50 miles of the Participant's business location at the time of a Change of Control;
  - (iii) a material adverse change in the Participant's job responsibilities or level of authority; or
  - (iv) any material failure to comply with the terms of this Plan by the Business Unit or its successors.
- i. Participant shall mean an employee designated by SFC to participate in the Plan, provided the authority to designate Participants may be delegate by SFC to the Business Unit.

- j. Plan shall mean this Amended and Restated Annual Bonus Plan.
- k. Plan Year shall mean January 1, 2000 through December 31, 2000.
- l. Retention Date shall mean December 31, 2000 or in the event of a Change of Control, the date that is thirty (30) days following a Change of Control.
- m. SFC shall mean Specialty Foods Corporation.
- n. Subsidiary shall mean a direct or indirect subsidiary of SFC which is included in SFC's consolidated tax return.

### 3. ELIGIBILITY FOR PARTICIPATION

An Award may be granted for the Plan Year to each Participant who is in active service during the Plan Year; provided, however, that such Participant has completed at least two (2) months of active service with SFC or a Subsidiary during the Plan Year. Except as otherwise provided in this Section 3 or in Section 6 below, a Participant must be employed by SFC, the Business Unit or their successors through the Retention Date to receive an Award.

The Award applicable to a Participant otherwise eligible to receive an Award under the Plan shall be prorated over the Plan Year, or the Participant shall be ineligible to receive an Award for the Plan Year, subject to the provisions in Section 6 entitled "Incentive Awards Upon Change of Control," as determined below:

- |  |   |   |
|--|---|---|
| (1) promotion into or demotion from a level of management eligible for Awards after the beginning of the Plan Year           | - | prorate Award from the date of entrance or exit   |
| (2) receipt of disability benefits for more than six months in the Plan Year under SFC's or any Subsidiary's disability plan | - | prorate Award to the nearest month based on time of service while not receiving disability benefits |
| (3) receipt of disability benefits for six months or less in the Plan Year under SFC's or any Subsidiary's disability plan   | - | no reduction in applicable Award  |
| (4) normal retirement, early retirement with the approval of SFC or transfer to another                                      | - | prorate Award based on the date of retirement or transfer   |

#### Subsidiary during the Plan Year

- |      |   |   |  |
|------|---|---|--|
| (5)  | leave of absence during the Plan Year   | - | prorate Award based on the date when the leave commences |
| (6)  | death during the Plan Year  | - | prorate Award to date of death                           |
| (7)  | early retirement during the Plan Year without the approval of SFC                                     | - | no Award (except as provided in Section 6)               |
| (8)  | resignation before the Retention Date   | - | no Award (except as provided in Section 6)               |
| (9)  | demotion during the Plan Year because of unsatisfactory performance to a position that is not covered | - | no Award (except as provided in Section 6)               |
| (10) | termination without Cause during the Plan Year  | - | no Award (except as provided in Section 6)               |
| (11) | dismissal for Cause during or after the Plan Year (but before payment) by SFC or a Subsidiary         | - | no Award   |

Notwithstanding any other provision of the Plan, with respect to eligible Participants transferred between Subsidiaries during the Plan Year, the Subsidiary last employing the Participant during the Plan Year shall determine and pay the entire annual Award, if any, for the Plan Year. SFC shall have discretion in making any accounting allocations between Subsidiaries to properly reflect time spent with each Subsidiary.

#### 4. PERFORMANCE MEASUREMENT

The standard used to determine performance of the Business Unit will be EBITDA of such Business Unit. One hundred percent (100%) of the target is based on EBITDA performance. The threshold (minimum), target and maximum EBITDA objectives for the Business Unit have been recommended by the Chief Executive Officer of SFC and approved by the Compensation Committee and are reflected in the attached schedule entitled "2000 Annual Bonus Plan Payout Schedule".

#### 5. GENERAL INCENTIVE AWARD GUIDELINES

Target incentive awards will be expressed as a percent of annualized salary (e.g., 10%). These percentages determine the amount that will be paid in the event that the performance of the applicable Business Unit meets objectives. Target incentive



awards will be established for various levels of Participants. Maximum award opportunities will be set for the Business Unit. However, this maximum award may be exceeded with approval of the Compensation Committee. Threshold (minimum) performance (at which a Participant receives 0% bonus) will also be set for the Business Unit. See attached schedule entitled "2000 Annual Bonus Plan Payout Schedule" for the target incentive awards and threshold levels established for the Business Unit for this Plan Year.

To determine the Awards for actual performance between the threshold, target and maximum EBITDA targets set by the Compensation Committee, a percent of the target award will be calculated by means of interpolation (see attached schedule entitled "2000 Annual Bonus Plan Payout Schedule").

## 6. INCENTIVE AWARD GUIDELINES UPON A CHANGE OF CONTROL

### a. Vesting of Award Upon Change of Control

Upon a Change of Control, a Participant shall earn the right to receive an Award under the Plan based on the actual EBITDA performance for the Business Unit at the time of such Change of Control as compared to the budgeted EBITDA performance objectives for the Business Unit at the time of such Change of Control, as determined by SFC (the "Prorated EBITDA Target"); provided, however, that a Participant shall not earn the right to receive an Award under this provision unless the actual EBITDA performance for the Business Unit at the time of such Change of Control is at least equal to 90% of the Prorated EBITDA Target. In the case of such Change of Control, (i) the Prorated EBITDA Target shall be substituted for the target set forth on the Amended and Restated 2000 Annual Bonus Payout Schedule attached hereto, (ii) the maximum objective shall be 110% of the Prorated EBITDA Target and (iii) the threshold (minimum) objective shall be 90% of the Prorated EBITDA Target. Thereafter, the Participant's Award shall be prorated upon a Change of Control to the date of the Change of Control (e.g. if the Change of Control occurs on September 30, the Participants Award shall be multiplied by .75).

### b. Condition of Continued Employment Upon Change of Control

The payment to a Participant of the Award described in paragraph (a) of this Section is expressly conditioned upon such Participant's continued employment with SFC, the Business Unit or their successors through the Retention Date (except as provided in Section 3), unless, after the Change of Control and prior to the Retention Date, the Participant (i) is terminated by SFC, the Business Unit or their successors without Cause or (ii) voluntarily terminated employment with Good Reason as defined

herein or in the event such participant has an employment agreement or severance agreement, as defined in such other agreement.

c. Payment of Award Upon a Change of Control

The payment of the Award described in paragraph (a) of this Section shall be made in accordance with the timing and the terms specified in Section 7(b) of the Plan.

7. ADMINISTRATIVE GUIDELINES

a. Adjustments in Financial Performance Measurements

In order to effectuate the purpose of the Plan, SFC may make adjustments in the criteria established for the Plan Year which reflect any extraordinary changes that may have occurred during the Plan Year or which significantly alter the basis upon which such performance levels were determined. Such changes may include, without limitation, changes in acquisitions, accounting practices, tax, regulatory or other laws or regulations, divestitures, financings, or economic changes not in the ordinary course of business cycles. Any adjustments made by SFC can be made at any time and in any manner that SFC in its sole discretion deems appropriate, and any and all such adjustments shall be conclusive and binding upon all parties concerned.

b. Approval and Payment of Bonus Awards

Award payments are subject to the approval of the Compensation Committee and will normally occur concurrently with payment for the last pay period in February of the year following the Plan Year. Payments will normally be made by ordinary payroll methods.

Except in the case of death, disability, retirement, demotion, promotion, leave of absence, transfer to another subsidiary, or, in certain cases, a Change of Control, a Participant must be employed by SFC, the Business Unit or their successors, on the Retention Date to receive an Award. In cases of death, disability, retirement, demotion, promotion, leave of absence or transfer to another subsidiary, the Participant or the designated beneficiary (as designated with respect to a Participant's life insurance policy held through SFC or a Subsidiary) shall receive the Award to the extent and in the amount specified in the Section 3 entitled "Eligibility for Participation." In the case of a Change of Control, the Participant shall receive the Award to the extent and in the amount specified

in Section 6 entitled "Incentive Awards Upon Change of Control."

## 8. GENERAL RULES

- a. Effective Date. This Plan shall have an effective date of January 1, 2000.
- b. Restatement. This Plan is an amendment and restatement of the Archway-Mother's 2000 Annual Bonus Plan as effective on January 1, 2000 (the "Prior Plan"). This Plan supersedes and replaces the Prior Plan.
- c. Amendment. The Plan has been adopted by the Compensation Committee and may be amended from time to time, in any respect, by such Committee. Any such amendment may add to, amend, reduce or cancel any and all rights in regard to the Plan.
- d. Accruals. SFC reserves the right, in its sole discretion, to determine the nature and amount of all accruals that are to be recorded on the books of the Subsidiaries at the end of the Plan Year.
- e. Administration. The Vice President and General Counsel of SFC shall be responsible for the general operation and administration of the Plan and shall have the authority to interpret the Plan and to adopt administrative rules and regulations governing its operation.
- f. Termination. The Plan may be terminated at any time by the Compensation Committee. Upon such termination, all rights of a Participant to amounts not then awarded to Participants shall be null and void. However, amounts previously accrued through the date of the Plan termination based pro rata on EBITDA shall not be affected.
- g. Continued Employment. Participation in the Plan shall not give any employee any right to remain in the employment of SFC or any Subsidiary. The Plan is not to be construed as a contract of employment for any period and does not alter the "employee-at-will" employment status of any Participant.
- h. Employment Taxes. Award payments under the Plan shall be treated as wages and shall be subject to income, FICA and any other applicable withholding taxes and deductions at the time received as required by applicable law or regulation, as in effect from time to time.
- i. Employment Agreements. If a Participant is party to an employment agreement, the terms of which relate to annual bonuses and which are inconsistent with the terms of this Plan, the terms

of such employment agreement shall govern to the extent of such inconsistency.

- j. **Unfunded Plan.** The obligations under this Plan shall be unfunded. Neither SFC nor any of the Subsidiaries shall be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan.
- k. **Successors Bound.** The rights and obligations of the Business Unit hereunder shall inure to the benefit of and be binding upon the successors of the Business Unit.
- l. **Assignment.** Participants shall not assign any rights granted to them by the terms of this Plan or encumber in any way their interests herein; provided, however, that in the event of a Participant's death, any payments then due and owing will be made when due as provided in Section 7(b) entitled "Approval and Payment of Bonus Awards."
- m. **Effect of Plan.** This Plan shall have a term expiring on the earlier of (1) the date on which all Awards earned under the Plan, if any, are paid to Participants and (2) the date on which a determination is made by the Compensation Committee that no Awards have been earned under the Plan (provided that the authority to determine that no Awards have been earned under the Plan may be delegated by the Compensation Committee to SFC and by SFC to the Business Unit). At such time, the Plan shall expire and be of no further force or effect.
- n. **Governing Law/Jurisdiction.** The substantive law (and not the law of conflicts) of the State of Illinois will govern all questions concerning the construction, validity and interpretation of this Plan and the performance of the obligations imposed by this Plan. The parties hereby waive their rights to request or demand a trial by jury in the event controversy arises under this Plan.
- o. **Headings.** The headings used herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Plan.

Archway - Mother's Cookies  
2000 Annual Bonus Plan Payout Schedule  
(\$'s expressed in millions)

EBITDA

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	\$ EBITDA -----	% Payout -----
200% Award - Maximum	36.30	200
	35.64	180
	34.98	160
	34.32	140
	33.66	120
Target	33.00	100
	32.34	90
	31.68	80
	31.02	70
	30.36	60
Minimum	29.70	50
Below 29.70		0

---

#### EBITDA Payout Calculation

EBITDA % Payout (A) EBITDA Between 29.7  
and 33.0

$[(\text{EBITDA} - 29.7) \text{ divided by } .066] + 50 = \% \text{ payout}$

EBITDA % Payout (B) EBITDA Between 33.0  
and 36.3

$[(\text{EBITDA} - 33.0) \text{ divided by } .033] + 100 = \% \text{ payout}$

SPECIALTY FOODS CORPORATION

AMENDED AND RESTATED  
ANNUAL BONUS PLAN  
2000

ANDRE-BOUDIN BAKERIES, INC.

ANNUAL BONUS PLAN

1. PURPOSES

Specialty Foods Corporation ("SFC") has established the Annual Bonus Plan (the "Plan") as a vehicle for motivating and rewarding designated executives whose responsibilities have a significant impact on the key short-term business objectives of SFC and its Subsidiaries (as hereinafter defined). Annual incentive awards are determined by the relative success of SFC and its Business Units (as hereinafter defined) in achieving specific annual financial objectives. The Plan provides the opportunity for participants to receive incentive compensation when financial results meet or exceed these pre-established goals.

2. DEFINITION OF TERMS

The following defined terms will have the meanings set forth below for purposes of the Plan:

- a. Annual Salary shall mean the annualized base salary in effect for a Participant on December 31, 2000.
- b. Award shall mean the cash payment made to Participants under the Plan.
- c. Business Unit shall mean Andre-Boudin Bakeries, Inc. and its subsidiaries.

- d. Cause shall mean the Participant's admission or conviction of a felony, the Participant's commission of an act of dishonesty in the course of his or her duties, the Participant's repeated disregard of policy directives of SFC or the Subsidiaries, or the Participant's breach of his or her fiduciary responsibilities or duties as an employee of SFC or the Subsidiaries.
- e. Compensation Committee shall mean the committee designated as such by the Board of Directors of SFC.
- f. EBITDA shall mean, with respect to any Business Unit, an amount reasonably determined by SFC as such Business Unit's income from operations (including annual bonus accruals as an expense), plus depreciation of property, plant and equipment, and amortization of intangible assets, but not including gain/loss on asset sales. The actual incremental 2000 EBITDA benefits related to acquisitions made in 2000, if any, will be excluded for purposes of determining 2000 EBITDA.
- g. Participant shall mean an employee designated by the Compensation Committee to participate in the Annual Bonus Plan, provided the authority to designate Participants may be delegated by the Compensation Committee to SFC and by SFC to the Business Units.
- h. Plan shall mean this Annual Bonus Plan.
- i. Plan Year shall mean January 1, 2000 through December 31, 2000.
- j. SFC shall mean Specialty Foods Corporation.
- k. Subsidiary shall mean a direct or indirect subsidiary of SFC which is included in SFC's consolidated tax return.

### 3. ELIGIBILITY FOR PARTICIPATION

An Award may be granted for the Plan Year to each Participant who is in active service during the Plan Year; provided, however, that such Participant has completed at least two months of active service with SFC or a Subsidiary during the Plan Year. Except in the case of death, disability or retirement, a Participant must be employed by SFC or a Subsidiary on December 31 of the Plan Year to receive an Award.

The Award applicable to a Participant otherwise eligible to receive an Award under the Plan shall be prorated over the Plan Year, or the Participant shall be ineligible to receive an Award

for the Plan Year, as determined below:

- |  |   |   |
|--|---|---|
| (1) promotion into or demotion from a level of management eligible for Awards after the beginning of the Plan Year           | - | prorate Award from the date of entrance or exit   |
| (2) receipt of disability benefits for more than six months in the Plan Year under SFC's or any Subsidiary's disability plan | - | prorate Award to the nearest month based on time of service while not receiving disability benefits |
| (3) receipt of disability benefits for six months or less in the Plan Year under SFC's or any Subsidiary's disability plan   | - | no reduction in applicable Award  |
| (4) normal retirement, early retirement with the approval of SFC or transfer to another Subsidiary during the Plan Year      | - | prorate Award based on the date of retirement or transfer   |
| (5) leave of absence during the Plan Year  | - | prorate Award based on the date when the leave commences  |
| (6) death during the Plan Year   | - | prorate Award to date of death  |
| (7) early retirement during the Plan Year without the approval of SFC  | - | no Award  |
| (8) resignation during the Plan Year   | - | no Award  |
| (9) demotion during the Plan Year because of unsatisfactory performance to a position that is not covered                    | - | no Award  |
| (10) termination without Cause during the Plan Year  | - | no Award  |
| (11) dismissal for Cause during or after the Plan Year (but before payment) by SFC or a Subsidiary                           | - | no Award  |

Notwithstanding any other provision of the Plan, with respect to eligible Participants transferred between Subsidiaries during the Plan Year, the Subsidiary last employing the Participant during the Plan Year shall determine and pay the entire annual Award, if



any, for the Plan Year. SFC shall have discretion in making any accounting allocations between Subsidiaries to properly reflect time spent with each Subsidiary.

#### 4. PERFORMANCE MEASUREMENT

The standard used to determine performance of the Business Unit will be EBITDA of such Business Unit. One hundred percent (100%) of the target is based on EBITDA performance. The threshold (minimum), target and maximum EBITDA objectives for the Business Unit have been recommended by the Chief Executive Officer of SFC and approved by the Compensation Committee and are reflected in the attached schedule entitled "2000 Annual Bonus Plan Payout Schedule."

#### 5. INCENTIVE AWARD GUIDELINES

Target incentive awards will be expressed as a percent of annualized salary (e.g., 10%). These percentages determine the amount that will be paid in the event that the performance of the applicable Business Unit meets objectives. Target incentive awards will be established for various levels of Participants. Maximum award opportunities will be set for the Business Unit. However, this maximum award may be exceeded with approval of the Compensation Committee. Threshold (minimum) performance (at which a Participant receives 0% bonus) will also be set for the Business Unit. See attached schedule entitled "2000 Annual Bonus Plan Payout Schedule" for the target incentive awards and threshold levels established for the Business Unit for this Plan Year.

To determine the Awards for actual performance between the threshold, target and maximum EBITDA targets set by the Compensation Committee, a percent of the target award will be calculated by means of interpolation (see attached schedule entitled "2000 Annual Bonus Plan Payout Schedule").

#### 6. ADMINISTRATIVE GUIDELINES

##### a. Adjustments in Financial Performance Measurements

In order to effectuate the purpose of the Plan, the Compensation Committee may make adjustments in the criteria established for the Plan Year which reflect any extraordinary changes that may have occurred during the Plan Year or which significantly alter the basis upon which such performance levels were determined. Such changes may include, without limitation, changes in acquisitions, accounting practices, tax, regulatory or other laws or regulations, divestitures, financings, or economic changes not in the ordinary course of business cycles. Any adjustments made by the Compensation Committee can be made at any time and in any

manner that the Compensation Committee in its sole discretion deems appropriate, and any and all such adjustments shall be conclusive and binding upon all parties concerned.

b. Approval and Payment of Bonus Awards

Award payments are subject to the approval of the Compensation Committee and will normally occur concurrently with payment for the last pay period in February of the year following the Plan Year. Payments will normally be made by ordinary payroll methods.

Except in the case of death, disability or retirement, a Participant must be employed by SFC or a Subsidiary on December 31 of the Plan Year to receive an Award. In cases of death, disability or retirement, the Participant or the designated beneficiary (as designated with respect to a Participant's life insurance policy held through SFC or a Subsidiary) shall receive the Award to the extent and in the amount specified in the Section 3 entitled "Eligibility for Participation."

7. GENERAL RULES

- a. Effective Date. This Plan shall have an effective date of January 1, 2000.
- b. Amendment. The Plan has been adopted by the Board of Directors of SFC and may be amended from time to time, in any respect, by such Board. Any such amendment may add to, amend, reduce or cancel any and all rights in regard to the Plan.
- c. Accruals. SFC reserves the right, in its sole discretion, to determine the nature and amount of all accruals that are to be recorded on the books of the Subsidiaries at the end of a Plan Year.
- d. Administration. The Vice President and General Counsel of SFC shall be responsible for the general operation and administration of the Plan and shall have the authority to interpret the Plan and to adopt administrative rules and regulations governing its operation.
- e. Termination. The Plan may be terminated at any time by the Board of Directors of SFC. Upon such termination, all rights of a Participant to amounts not then awarded to Participants shall be null and void. However, amounts previously accrued through the date of the Plan termination based pro rata on EBITDA shall not be affected.
- f. Continued Employment. Participation in the Plan shall not

give any employee any right to remain in the employment of SFC or any Subsidiary. The Plan is not to be construed as a contract of employment for any period and does not alter the "employee-at-will" employment status of any Participant.

- g. Employment Taxes. Award payments under the Plan shall be treated as wages and shall be subject to income, FICA and any other applicable withholding taxes and deductions at the time received as required by applicable law or regulation, as in effect from time to time.
- h. Employment Agreements. If a Participant is party to an employment agreement, the terms of which relate to annual bonuses and which are inconsistent with the terms of this Plan, the terms of such employment agreement shall govern to the extent of such inconsistency.
- i. Unfunded Plan. The obligations under this Plan shall be unfunded. Neither SFC nor any of the Subsidiaries shall be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan.
- j. Successors Bound. The rights and obligations of the Company hereunder shall inure to the benefit of and be binding upon the successors of the Company.
- k. Assignment. Participants shall not assign any rights granted to them by the terms of this Plan or encumber in any way their interests herein; provided, however, that in the event of a Participant's death, any payments then due and owing will be made when due as provided in Section 6(b) entitled "Approval and Payment of Bonus Awards."
- l. Effect of Plan. This Plan shall have a term expiring on the earlier of (1) the date on which all Awards earned under the Plan, if any, are paid to Participants and (2) the date on which a determination is made by the Compensation Committee that no Awards have been earned under the Plan (provided that the authority to determine that no Awards have been earned under the Plan may be delegated by the Compensation Committee to SFC and by SFC to the Business Unit.) At such time, the Plan shall expire and be of no further force or effect.
- m. Governing Law/Jurisdiction. The substantive law (and not the law of conflicts) of the State of Illinois will govern all questions concerning the construction, validity and interpretation of this Plan and the performance of the obligations imposed by this Plan. The parties hereby waive their rights to request or demand a trial by jury in the

event controversy arises under this Plan.

- n. Headings. The headings used herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Plan.

ANDRE-BOUDIN BAKERIES, INC.  
2000 ANNUAL BONUS PLAN PAYOUT SCHEDULE  
(\$s expressed in millions)

	EBITDA -----	
	\$EBITDA -----	% Payout -----
140% Target	3.5	200 (Maximum)
	3.4	180
	3.3	160
	3.2	140
	3.1	120
	2.8	110
Target/Minimum	2.5	100
	2.4	90
	2.3	80
	2.2	70
	2.1	60
	2.0	50
below	2.0	0

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PAYOUT CALCULATIONS

% Payout for EBITDA above 2.0 up to 2.5  
 $[(EBITDA - 2.0) \text{ divided by } .01] + 50 = \% \text{ Payout}$

% Payout for EBITDA above 2.5 up to 3.1  
 $[(EBITDA - 2.5) \text{ divided by } .03] + 100 = \% \text{ Payout}$

% Payout for EBITDA above 3.1 up to 3.5  
 $[(EBITDA - 3.1) \text{ divided by } .005] + 120 = \% \text{ Payout}$

MOTHER'S CAKE & COOKIE CO.

SECOND AMENDED AND RESTATED  
SUPPLEMENTAL  
LONG TERM INCENTIVE PLAN  
FOR KEY EMPLOYEES

MOTHER'S CAKE & COOKIE CO.  
SECOND AMENDED AND RESTATED  
SUPPLEMENTAL LONG TERM INCENTIVE PLAN  
FOR KEY EMPLOYEES

Section 1. Purpose. The purpose of the Mother's Cake & Cookie Co. Supplemental Long Term Incentive Plan for Key Employees is to promote the interests of Mother's Cake & Cookie Co. and Specialty Foods Corporation, its parent corporation, by attracting, incenting and rewarding certain key executives of Mother's Cake & Cookie Co. to: (a) create economic value; (b) focus management's attention on overall corporate performance and thereby promote cooperation and teamwork among management; and (c) provide executives with a direct economic interest in the attainment of long term business objectives. This Plan supersedes the Mother's Cake & Cookie Co. Supplemental Long Term Incentive Plan effective October 31, 1997 and the Amended and Restated Supplemental Long Term Incentive Plan effective March 15, 1999. All Participant Awards previously granted under the First Amended and Restated Plan effective March 15, 1999 remain in full force and effect (unless otherwise previously terminated pursuant to the terms of the first Amended and Restated Plan) and are to be deemed granted under the terms of this Second Amendment.

Section 2. Definitions. As used in this Plan, capitalized terms shall have the meanings set forth below:

(a) "Board of Directors" shall mean the board of directors of SFC, as in place from time to time.

(b) "Change of Control" shall mean a sale or

transfer, directly or indirectly, of all of the outstanding stock of Holdings or the Company or substantially all of the assets of Holdings or the Company to an unaffiliated entity.

(c) "Change of Control Payment" shall mean a payment to be made to a Participant in accordance with Section 4(a).

(d) "Company" shall mean Mother's Cake & Cookie Co., a California corporation and its subsidiaries, including Archway Cookies, L.L.C., a Delaware limited liability corporation.

(e) "Effective Date" shall mean March 15, 2000.

(f) "EBITDA" shall mean the amount determined on a consolidated basis for Holdings and the Company (as reflected on the consolidated financial statements of Holdings and the Company) for the Measuring Fiscal Year equal to the consolidated (i) income from operations, plus (ii) depreciation of its property, plant and equipment and amortization of intangible assets of Holdings and the Company.

(g) "Employee" shall mean an employee of the Company.

(h) "Fair Market Value" shall mean:

(i) In the event of a potential Change of Control Payment, the aggregate net cash proceeds received by Holdings, the Company and/or SFC (and its subsidiaries) (after deducting all transaction fees and expenses incurred by Holdings, the Company and/or SFC in connection with such Change of Control); and

(ii) In the event of a potential Terminal Value Payment, the Fair Market Value of Holdings and the Company, as of the Terminal Value Measurement Date, as determined by multiplying the EBITDA of the Measuring Fiscal Year by a factor of nine and a half (9.5). By way of example, if the EBITDA of the Measuring Fiscal Year equaled \$25.0 million, the Fair

Market Value would equal \$237.5 million.

(i) "Fiscal Year" shall mean the calendar year ending December 31, whether or not such period is the fiscal year end of Holdings and the Company.

(j) "Holdings" shall mean MCC-DSD Holdings, Inc., a Delaware corporation and the parent corporation of the Company.

(k) "Measuring Fiscal Year" shall mean the Fiscal Year of Holdings and the Company ending December, 2000.

(l) "Participant" shall mean an Employee designated by the Board of Directors to participate in the Plan.

(m) "Participant Award" shall mean an award granted by the Board of Directors to a Participant pursuant to Section 3 of a specified Value Increase Participation Rate, as evidenced by the issuance of a Participant Award Agreement by the Company in favor of the Participant.

(n) "Participant Award Agreement" shall mean an agreement in the form of Exhibit A.

(o) "Plan" shall mean the Mother's Cake & Cookie Co. Supplemental Long Term Incentive Plan, as may be amended from time to time.

(p) "SFC" shall mean Specialty Foods Corporation, the parent corporation of Holdings and the Company.

(q) "Terminal Value Measuring Date" shall mean December 31, 2000.

(r) "Terminal Value Payment" shall mean a payment to be made to a Participant in accordance with Section 4(b).

(s) "Threshold Value" shall mean an amount equal to \$216 million.

(t) "Value Increase Participation Rate" shall mean, with respect to any Participant, the percentage of the Value Increase Amount granted to such Participant pursuant to his or her Participant Award.

(u) "Value Increase Amount" shall mean:

(i) In determining the

amount of a Change of Control Payment, an amount equal to the Fair Market Value as determined in connection with such Change of Control minus the Threshold Value; or

(ii) In determining the amount of a Terminal Value Payment, an amount equal to the Fair Market Value as determined at the Terminal Value Measurement Date minus the Threshold Value.

Section 3. Eligibility. Participants in the Plan shall be designated by the Board of Directors (provided that such Authority may be designated to SFC and by SFC to the Company) and shall consist of those Employees (whether or not employed on the Effective Date) who, in the sole discretion of the Board of Directors, have the potential to make a significant impact on the financial results of Holdings and the Company. The Board of Directors' designation of an Employee as a Participant and the grant of a Participation Award to a Participant shall be evidenced by an instrument or instruments in the form of the Participant Award Agreement. Participation Awards previously granted to Participants which have been forfeited pursuant to Section 6 due to termination of employment may be regranted to other Participants. There is no minimum or maximum number of Participant Awards that may be granted to a Participant.

#### Section 4. Awards.

(a) Change of Control Payment. In the event of a Change of Control, each Participant that has received a Participant Award shall become entitled to receive an amount equal to such Participant's Value Increase Participation Rate multiplied by the Value Increase Amount (as determined in connection with such Change of Control). Such amounts shall be paid in accordance with Section 5(a).

(b) Terminal Value Payment. In the event that a Change of Control has not occurred prior to June 1, 2001, each Participant that has received a Participant Award shall become entitled to receive an amount equal to such Participant's Value Increase Participation Rate multiplied by the Value Increase Amount (as determined as of the Terminal Value Measurement Date). Such amounts shall be paid in accordance with Section 5(b).

(c) Offset for Deferred Bonus Payments. The



amount of each Participant Award shall be reduced by the amount of any retention bonus payments under the 1999-2000 Retention Bonus Plan made to each such Participant by the Company or SFC if so specified in such Participant's award.

#### Section 5. Time and Form of Award Payments.

(a) Timing of Payment; Change in Control. Awards payable under the Plan as a result of a Change in Control shall be paid to Participants by the Company no later than ninety (90) days following the occurrence of such Change of Control, except as provided in Section 6(a).

(b) Timing of Payment; Terminal Value Payment Date. Awards payable under the Plan in the event a Change of Control has not occurred by June 1, 2001 shall be paid to Participants by the Company in one installment to be paid on June 1, 2001.

(c) Eligibility. Except as set forth in Section 6 below, a Participant must be an Employee at the time a payment is due in order to receive such payment.

(d) Method of Payment. All awards shall be paid in cash, without interest thereon.

(e) Termination of Plan Upon Payment. Participants shall be entitled to not more than one payment under this Plan. Upon a Change of Control Payment or Terminal Value Payment, this Plan shall terminate and shall be of no further force or effect.

#### Section 6. Termination of Employment.

(a) Change of Control. To receive a Change of Control Payment, a Participant must remain employed by the Company through the occurrence of a Change of Control and for a period of ninety (90) days thereafter, unless following such Change of Control but prior to the end of such ninety (90) day period, (i) the Participant dies or becomes disabled (as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended), (ii) is terminated by the Company or its successor for any reason other than cause or (iii) voluntarily terminates with Good Reason as defined in such participants employment agreement or severance agreement, in which case such Participant (or his beneficiary) shall be paid in accordance with the terms of the Plan within three (3) days of such event.

(b) Terminal Value Payment. To receive a Terminal Value Payment, a Participant must remain employed

by the Company through June 1, 2001.

Section 7. Administration. The Plan shall be administered by the Board of Directors. The Board may establish rules and regulations for the administration of the Plan, impose conditions with respect to competitive employment or other activities with respect to any such awards, and establish the written form to be used to evidence such awards. The Board of Directors shall have full authority to construe and interpret the terms and provisions of the Plan, to adopt, alter, waive and repeal such administrative rules, guidelines and practices governing the Plan and to perform all acts, including delegation of its responsibilities, as it shall, from time to time, deem advisable, and to otherwise supervise the administration of the Plan. All such rules, regulations and interpretations relating to the Plan which are adopted by the Board of Directors shall be conclusive and binding on all parties. The Board of Directors may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award granted hereunder, in the manner and to the extent it shall deem necessary to carry the Plan into effect. No member of the Board of Directors or any person or committee to whom responsibilities are delegated shall be liable for any action or determination made in good faith with respect to the Plan.

Section 8. Adjustments. In the event of any acquisition, divestiture or other corporate transaction of any kind involving the Company or its subsidiaries (which does not constitute a Change of Control) which the Committee, in its sole discretion, reasonably determines to be of such a kind or nature as to make appropriate an amendment or adjustment to the Plan or any Participation Awards granted thereunder in order to effectuate the intent and purposes of the Plan, the Committee may, in its sole discretion, make such amendment or adjustment.

Section 9. Amendments and Termination. The Board of Directors may amend or terminate the Plan at any time; provided, however, that, except as set forth in Section 8, no such amendment or termination shall materially and adversely impair the rights of any Participant hereunder without the written consent of Participants who, as of the time of such amendment or termination, hold the right to receive at least 66% of the total amounts which may then be payable pursuant to all of the Participant Awards which remain outstanding at such time; provided, however, that nothing contained herein shall limit or restrict the discretionary powers granted to the Board of Directors in Sections 1 through 8 hereof.

Section 10. Miscellaneous.

(a) No Right to Awards or Continued Employment. No Employee shall have any claim or right to be granted an award under the Plan. Neither this Plan nor any action taken hereunder shall be construed as giving any Employee any right to be retained in the employ of the Company or any subsidiary or affiliate thereof. Each Employee acknowledges that he or she is an "at-will" employee of the Company. Each Employee further acknowledges that nothing contained herein shall alter such "at-will" employment status.

(b) No Rights of a Stockholder. The receipt of Participant Awards by a Participant shall not entitle the Participant to vote, to receive dividends or distributions, to audit or review the Company's books and records, or to otherwise act as a stockholder of the Company.

(c) Unfunded Plan. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under the Plan.

(d) Taxes/Other Deductions. The Company shall have the right to deduct from all awards paid under the Plan any federal, state or local taxes required by law to be withheld with respect to such payments. In addition, the Company shall have the right to deduct from all awards paid under the Plan to a Participant any amounts owed by such Participants to the arbitrator pursuant to the provisions of Section 2(h).

(e) Relationship to Other Benefits. No payment under the Plan shall be taken into account in determining any benefits to which a Participant may be entitled under any bonus, pension, profit sharing, group insurance or other compensation or benefit plan, program or arrangement of the Company or any of its affiliations.

(f) Nontransferability. No award made hereunder may be assigned, pledged or transferred, except, in the event of death of a Participant, by will or the laws of descent and distribution, and any attempt to assign, pledge or transfer such rights shall be void. Any payments required under the Plan during a Participant's lifetime shall be made only to the Participant. In the event any conflicting demands are made upon the Company with respect to any payments due as a result of this Plan, provided that the Company shall not have received prior written notice that said conflicting demands have been finally settled by

court adjudication, arbitration, joint order or otherwise, the Company may pay to the Participant any and all amounts it determines to be due hereunder and thereupon the Company shall be fully relieved and discharged of any further duties or liabilities under the Plan with respect to such payment.

(g) Governing Law/Jurisdiction. This Plan shall be governed by, and construed in accordance with, the laws of the State of Illinois applicable to agreements made and to be performed entirely within such State (without regard to any conflict of law provisions that might indicate the applicability of any other laws). SFC, the Company and each Participant who is granted a Participant Award (as a condition to such grant) hereby irrevocably and unconditionally consents to submit to the exclusive jurisdiction of the courts of the State of Illinois and of the United States of America located in the City of Chicago for any actions, suits or proceedings arising out of or relating to the Plan and agrees not to commence any action, suit or proceeding relating hereto except in such courts. The parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising under the Plan in the courts of the State of Illinois or the United States of America located in the City of Chicago, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(h) Expenses. The Company shall bear all expenses incurred in connection with the administration of the Plan, but shall not be responsible for taxes or other expenses incurred by the Participants.

(i) Entire Agreement. This Plan and the Exhibit A applicable to each Participant set forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersede all prior agreements, arrangements and understandings, written or oral, relating to the subject matter hereof. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or liable for any illegal representation, promise of inducement not so set forth.

Section 11. Effective Date. Subject to the approval of the Board of Directors, this Plan shall become effective as of March 15, 2000.

#### EXHIBIT A

Date of Grant:

Participant:

MOTHER'S CAKE & COOKIE CO.  
SUPPLEMENTAL LONG TERM INCENTIVE PLAN  
FOR KEY EMPLOYEES

PARTICIPATION AWARD AGREEMENT dated as of May \_\_, 1999 by and between MOTHER'S CAKE & COOKIE CO., a California corporation (the "Company"), and \_\_\_\_\_ (the "Participant").

All words and phrases not otherwise expressly defined herein shall have the same meanings as are ascribed to such words and phrases in the Mother's Cake & Cookie Co. Supplemental Long Term Incentive Plan for Key Employees (the "Plan").

The Board of Directors has determined that the objectives of the Plan will be furthered by granting to the Participant Participation Units in the Plan.

In consideration of the foregoing and of the mutual undertakings set forth in this Agreement, the Company and the Participant agree as follows:

Section 1 Grant of Participation Unit. Subject to the provisions of the Plan and this Agreement, the Company hereby grants to the Participant a Value Increase Participation Rate under the Plan equal to an amount equal to \_\_\_\_\_ percent (\_\_\_%) of the Value Increase Amount (the "Value Increase Participation Rate").

[Only to the extent applicable, as determined by the Board in its discretion: Notwithstanding anything herein to the contrary, the amount of an award payable to a Participant under this Plan shall be reduced by the amount of any payments made under the 1999-2000 Retention Bonus Program to such Participant by the Company or SFC.]

Section 2 Plan Provisions to Prevail. This Agreement shall be subject to all of the terms and provisions of the Plan, which are incorporated hereby and made a part hereof. In the event there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

Section 3 Participant's Acknowledgments. The

Participant agrees and acknowledges that he has received and read a copy of the Plan, and accepts this grant upon all of the terms thereof.

Section 4 Non-Transferability. No grant to the Participant under the Plan shall be assignable or transferable by the Participant (whether by operation of law or otherwise and whether voluntarily or involuntarily), other than by will or by the laws of descent and distribution. During the lifetime of the Participant, all rights granted to the Participant under the Plan shall be exercisable only by the Participant.

Section 5 Notices. Any notice to be given to SFC hereunder shall be in writing and shall be addressed to Specialty Foods Corporation, 520 Lake Cook Road, Deerfield, IL 60015, Attention: Vice President and General Counsel or at such other address as SFC may hereafter designate to the Participant by notice as provided herein. Any notice to be given to Mother's hereunder shall be in writing and shall be addressed to Mother's Cake & Cookie Co., 810 81st Avenue, Oakland, CA 94621, Attention: Vice President - Human Resources. Any notice to be given to the Participant hereunder shall be addressed to the Participant at the address of the Participant's principal place of employment or at such other address as the Participant may hereafter designate to SFC by notice as provided herein. Notices hereunder shall be deemed to have been duly given when received by personal delivery or by registered or certified mail to the party entitled to receive the same.

Section 6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and the successors and assigns of the Company and, to the extent set forth in the Plan, the heirs and personal representatives of the Participant.

Section 7 Modifications to Agreement. This Agreement may not be altered, modified, changed or discharged, except by a writing signed by or on behalf of both the Company and the Participant.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

MOTHER'S CAKE, & COOKIE CO.,  
a California corporation

/s/Patrick O'Dea

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By:

Name: Patrick O'Dea  
Title: President and  
Chief Executive Officer

Agreed to and Accepted:

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Participant

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