A History Of Excellence

Bar-S Foods Co.

Founded 1981

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Acknowledgements

This book began as a vision in the mind of Tim Day. A number of people, including Tim, worked to make this vision a reality.

Morris Kinne and Leslie Pellillo wrote much of the original history text. Keith Pace and Al Stitt were invaluable in supplying information and pictures for both Cudahy and Bar-S.

The Bar-S Marketing Department coordinated the entire project and developed the special interest sections of the book.

Bob Forbes, President of Forbes Communications, took the lead in actually designing the book. The history illustrations were created by Steve Parker of Parker Grafix.

As is so often the case at Bar-S, the development and publication of *A History Of Excellence"* was a Team effort. We congratulate and thank all those who had a part in making the documentation of our Company's history a reality.

This Book Is Dedicated To
TEAM BAR-S
The People Who Made It Happen

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The Formation

Bar-S Foods Co. is the surviving successor to the branded packaged meat business of Cudahy Company -- a "full-line" meat packer with a history dating back to 1890. Bar-S became a legal entity on June 8, 1981, and an operational company on August 28, 1981.

The "Bar-S Story" cannot be told without a brief history of Cudahy and how the opportunity to form Bar-S came about.

A meat packing company named Cudahy-Armour had operated for three years prior to 1890 in Omaha, Nebraska. In December of 1890, Cudahy bought Armour's interest in the Omaha plant and incorporated as the Cudahy Packing Company.

During the first half of the 20th century, Cudahy grew to become a major supplier in the United States and the United Kingdom of beef, pork, lamb, packaged meats, lard and certain oils. It built and purchased large "full-line" meat plants throughout the United States in cities such as St. Paul, Minnesota; Sioux City, Iowa; Kansas City, Missouri; Wichita, Kansas; Denver, Colorado; Salt Lake City, Utah; Los Angeles, California; San Diego, California; and Albany, Georgia. When the Albany plant opened in 1936, it was heralded as "the world's most modern packing plant." Cudahy also operated 97 branch house facilities.

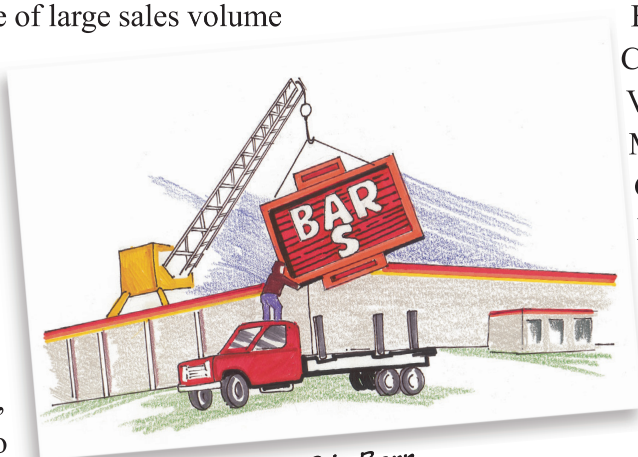
By the early 1900s, Cudahy had become involved in other food and agriculture-related products such as Delrich margarine. The Company also began marketing commercial soaps and products for home cleaning. The most famous of these products was Old Dutch Cleanser. This product was sold all over the world, and the Dutch girl chasing dirt with a stick became one of the world's best-known trademarks. Old Dutch Cleanser plants were located in Omaha, Nebraska; Los Angeles, California; Chicago, Illinois; Toronto, Canada; London, England; Havana, Cuba; Sydney, Australia; and Auckland, New Zealand.

In 1920, the five major meat packers -- Cudahy, Armour, Swift, Wilson, and Morris -- had become such huge economic entities that the United States government required them to sign a consent decree agreeing not to enter certain segments of the nation's economy. This consent decree was not lifted until the 1970s.

After World War II, Cudahy began to shrink, and several of its large, obsolete slaughter plants were sold or closed. General Host Corporation, represented by Tim Day, came into the picture in 1970 when it purchased Cudahy. At that time, Cudahy was a full-line slaughterer of hogs and cattle with major meat operations in Seattle, Phoenix, Denver, Atlanta, Wichita and San Antonio, and a feedlot and beef plant in central Washington. In addition, there were miscellaneous businesses such as cheese plants, salt mines, leather tanneries, animal feed plants, casing operations, and mink farms. The Company's fortunes tended to rise and fall with the available supply of hogs.

General Host broke Cudahy into separate business components. The meat operations became a division called Cudahy Foods. The other businesses were folded into other operating groups of General Host. Almost immediately, Cudahy Foods proved to be an unprofitable operation in spite of large sales volume in the $600 million range.

In 1974, General Host hired McKinsey and Co. to study the business, and these consultants made many recommendations including the hiring of a new President. Tim Day, already a senior executive of General Host, was asked on June 2, 1975, to take over Cudahy Foods. He arrived in Phoenix that evening and assumed these duties the morning of June 3.



Bar-S Is Born

Tim found a complex and sprawling company of 13 plants and 15 branch houses. Facilities were old and obsolete, information systems were lacking, expense levels were high, and management and the control of operations were fragmented and marginally functional. There was no clear plan, focus, or direction, and each plant and distribution center was allowed to operate as an independent entity. The Seattle Packing Co., which was acquired by Cudahy in 1957, was the original home of the Bar-S brand. Although "Bar-S" was used in other geographic locations, each operating unit was permitted to select which brands to use in their market. They chose from brands such as Bar-S, Puritan, Gold Coin, Holiday and Rex. In addition, all of the locations were covered by high-cost collective bargaining agreements involving 33 unions, most of which were local unions of the United Food and Commercial Workers. While the accounting systems did not provide timely or useful financial information, it was very clear that the Company was losing lots of money and that radical surgery was needed.

Bob Uhl was Controller of Cudahy, and Keith Pace was Vice President of Operations. Morris Kinne had just joined General Host as Western Regional Counsel and was handling the legal work for Cudahy and other western General Host Divisions.

In one sense, when Tim Day took over at Cudahy in 1975, it was the genesis of Bar-S. He proceeded to downsize the Company, close unprofitable facilities, establish clear objectives, strengthen management, revise accounting and information systems, and reduce corporate and location overhead. After redesigning, repackaging, and unifying the entire product line under the Bar-S brand, he implemented an aggressive company-wide consumer marketing program and attempted to reduce dependence on private-label products. The massive consumer marketing program was not a financial success, but the advertising and promotional expenditures did significantly increase the presence and recognition of the Bar-S brand in the marketplace.

Over time, a turnaround was achieved and Cudahy returned to profitability. By the late 1970s, the

Company was earning $2 million to $3 million per year; however, this was still a marginal return on investment for a company this size. Further, it became particularly clear to Tim after the 1979 labor negotiations that the unions were not going to permit any relief in their high-cost labor contracts and, in fact, had Cudahy in an economic death grip. In 1980, he formed a high-level task force to evaluate the long-term prospects and possible courses of action for Cudahy. The task force concluded that the future of Cudahy was problematic at best, and these findings were conveyed to the management and Board of Directors of General Host. Price Waterhouse was asked to evaluate the findings and concurred with the report.

Late in 1980, General Host announced to the public that it was getting out of the meat business, booked a $29 million loss, gave notice of closing to the unions, and tried to market Cudahy Company. Tim's assignment was to hold the Company together while General Host found a buyer; however, no one wanted it.

Early in 1981, General Host approached Tim and asked if he would consider buying all or part of Cudahy Company. At first he was reluctant given his intimate familiarity with the problems of Cudahy, but at the same time, his long affiliation with the Young Presidents' Organization had been stoking his entrepreneurial spirit for years. Therefore, he agreed to study the situation and immediately set about pulling together a potential buyout group to evaluate this opportunity. General Host wanted to sell the legal entity, Cudahy Company. After a lot of brainstorming, the group concluded that Cudahy had some very sound assets, provided it was possible to operate without the high-cost labor contracts and other liabilities that had caused Cudahy to fail. Accordingly, a detailed operating plan was developed along this line of thinking which formed the basis of a proposal submitted to General Host. The proposal involved:

- A new entity that would purchase selected assets of Cudahy Foods including certain plants, distribution centers, equipment, inventory, customer lists, and brand names;
- The new entity would have no legal obliga tion to assume the collective bargaining agreements;
- General Host would give the unions the required six months' notice of closing and be responsible for all related costs including severance pay and pension funding for union employees; and
- Tim and his Cudahy management team would continue to run the business until operations were sold or closed.

General Host did not like this concept; however, it was the only game in town. In May 1981, after a long series of negotiations, the purchase of most of Cudahy's meat processing business by a new entity called Bar-S Foods Co. was agreed to in principle. Tim and his partners were to contribute sufficient equity to enable Bar-S to finance the inventory and receivables being purchased with a loan secured by such assets. General Host would finance the purchase of the fixed assets with $7 million of preferred redeemable stock and a $6 million note secured by a mortgage lien on the plants until the note was paid.

On June 8, 1981, Bar-S Foods Co. was incorporated. At that point, Morris Kinne and his wife, Ann, were the sole officers, directors, and stockholders; and Morris, Shirley West and Quay Cox were the sole employees.

In this transaction, General Host kept the dry sausage and canned ham businesses operating as Cudahy Specialty Foods with plants in Omaha, Nebraska, and Independence, Iowa. Cudahy management was split between those who were staying with Cudahy Specialty Foods and those who were going with the new Bar-S Foods Co. Each group operated separately to a great degree during the final countdown. Six months' notices of closing had been given to the labor unions and the employees. However, the unions appeared to believe that this was a bargaining tool on the part of Cudahy and that the operations would not really close.

During June, July, and August, Tim and his Cudahy management team addressed the logistics of winding down the Cudahy Foods plants and branches, keeping customers from bolting, and building sufficient inventory to serve customers for several weeks after the shutdown until Bar-S could get the plants operating again.

Tim and the soon-to-be Bar-S management team also faced the planning and logistics of developing a totally new company. This included determining the organization structure for Bar-S; selecting those individuals who would join this new entity; planning startup operations in detail; preparing general operating policies and procedures; establishing compensation levels and fringe benefits for salaried employees; hiring hourly employees for the Denver and Seattle plants; and designing and ordering packaging and supplies with a new signature line. Except for Morris, Shirley, and Quay, this was weekend work for Tim and the prospective Bar-S management team.

As the countdown to August 28, 1981, began, negotiations commenced with several financial institutions for a line of credit to be secured by inventory and receivables. A $15 million commitment letter was received from First Interstate Bank on August 25, 1981. Actual documents executing the transactions were not signed until August 28, 1981. In fact, at the last minute, General Host raised the purchase price by increasing the required amount of preferred stock from $7 million to $10 million.

The transaction closed on August 28, 1981, and the following specifies what Bar-S acquired:

1. The assets and businesses of the Seattle and Denver plants and a 50% interest in the Norbest Joint Venture in Clinton, Oklahoma.

2. The distribution businesses in Atlanta, Denver, Kansas, Los Angeles, New Orleans, Phoenix, Salt Lake City, Seattle, San Francisco, and Texas.

3. The trademarks used by Cudahy Foods' meat division, principally Bar-S, Rex, and Extra Lean; and the right to use the Cudahy name with those trademarks for five years.

4. The exclusive distribution for one year of Cudahy Specialty Foods dry sausage, canned hams and canned luncheon meats in the marketing areas where Bar-S maintained distribution -- the West and the South.

5. The inventory and receivables as of closing.

6. The miscellaneous assets associated with the

distribution business, consisting primarily of motor vehicles.

7. Bar-S did not assume any liabilities for closing costs such as employee severance, pension fund, worker's compensation expense, or costs of maintaining closed facilities.

General Host retained the assets and business of Cudahy Specialty Foods, which included the dry sausage plant in Omaha, and the ham canning plant in Independence, Iowa. It also retained the closed Atlanta and Phoenix meat plants and the cheese manufacturing plants in Kentucky.

Bar-S had begun hiring new hourly employees in mid-August for the Denver and Seattle plants at wage rates considerably below the union rates of Cudahy, but competitive for the local area. On August 28, all Cudahy hourly and salaried employees, except those who were associated with Cudahy Specialty Foods, lost their jobs. The next day, all of the management, office, and supervisory employees of the new Bar-S were hired. Salaries were comparable in most instances to the old Cudahy salaries but the fringe benefits were significantly less, and seniority was zero for all employees. Further, it was made clear that this was going to be a very lean organization and that everyone was expected to take on a heavy workload. For example, initial staffing of the Bar-S Corporate Office was 32 employees compared to about 120 for Cudahy -- and the new Corporate Office had to take on many duties previously handled by General Host such as banking, money management, insurance administration, and management information systems.

Most former Cudahy employees who were offered positions with Bar-S accepted the jobs. A few salesmen left for competitors. Some management personnel retired, and several entered into consulting agreements with Bar-S.

The following were named as Corporate Officers of this new enterprise:

Timothy T. Day	President and CEO
Morris Y. Kinne	Vice President, Secretary and General Counsel
Robert W. Uhl	Vice President Finance and Treasurer
C. Keith Pace	Vice President Operations
Michael J. Mellison	Vice President Sales Western Region
Perry L. Dean	Vice President Sales Eastern Region
James S. Kuykendall	Controller

There were sixteen initial stockholders, with Tim Day, Morris Kinne, Keith Pace, and Bob Uhl controlling 80% of the outstanding stock and the remaining 20% spread among other key management. The stock had a par value of $1.00 per share and was priced at $1.00 per share. Tim Day and Morris Kinne were the Directors of the Company.

The stage has now been set to start relating the history of Bar-S Foods Co., which will be set forth in the context of five important phases of development. ❖

The Denver Plant

The Denver plant was built in 1923 by W.N.W. Blayney and Joseph P. Murphy, and operated as Blayney Murphy Company.

Early in 1934, Cudahy Company acquired the plant and operated it as a slaughtering and packaged meat facility. This facility was located adjacent to the Denver stockyards, and livestock could be driven from the yards right into the plant. In 1973, Cudahy added 34,500 square feet of processing area to the original structure.

When Bar-S Foods Co. was founded in 1981, the Denver plant was one of the facilities acquired from Cudahy. In 1984, Bar-S added 10,350 square feet of processing space, and over a period of 4 years reclaimed and refurbished 100,000 square feet of dry and refrigerated storage space in the original structure. In 1990, the entire building got a fresh coat of white paint.

Bar-S eventually moved smoked ham production to its Clinton plant. In 1996, sliced bacon operations were moved to a new facility in Altus, Oklahoma, and the Denver plant was closed.

The Denver plant and property were sold to the Western Stock Show Association in September 1998, and the facility was imploded on July 25, 1999.

The Seattle Plant

The Seattle plant was originally constructed by Charles H. Frye in 1888 on ground that was at one time under salt water. The company was called Frye & Company.

In 1943, a B-29 Super Fortress airplane on an experimental flight from nearby Boeing Field crashed into the plant, completely destroying the top floor of the main processing building. Twenty employees, eleven of the plane's crew, and one Seattle fireman lost their lives in the crash and ensuing fire. The plant was rebuilt and resumed slaughtering cattle, hogs, and sheep, as well as producing packaged meat items.

In 1950, Frye & Company was sold and became the Seattle Packing Company. Seven years later, Cudahy Company purchased the plant and eventually adopted the Bar-S logo that sat atop the main building as a Cudahy trademark.

When Bar-S Foods Co. was founded in 1981, the Seattle plant was one of the facilities acquired from Cudahy. Bar-S operated the plant, slaughtering hogs and producing packaged meat until 1984 when the facility was closed. The property was subsequently sold, and today is the site of office buildings.

The Clinton Plant

The original Clinton plant was built by O-Kay Turkey Company in 1961 and operated as a turkey slaughtering operation. The plant was not profitable and was closed in 1972.

Norbest aquired the plant in 1974 in settlement of debts. The plant produced packaged turkey products but was not successful, so Norbest sought an operating partner. In 1980, Cudahy Company joined Norbest in a joint venture to produce red meat and poultry packaged meats. The plant continued to lose money.

In 1981, Bar-S Foods Co. acquired Cudahy's interest in the joint venture as a part of its startup transactions. Shortly thereafter, Bar-S purchased Norbest's half of the joint venture and became sole owner of the Clinton plant. Bar-S struggled with the plant until 1984 when it finally became a break-even operation, and a series of major expansion efforts began.

With these expansions, the plant grew from its original size of 21,500 square feet to its present size of 120,000 square feet, and eventually it became highly profitable.

Phase I - Survival
Two Year Duration

This was an intense fire-fighting phase wherein the focus was on short-term emergency action steps to get the Company functioning, to deal with multiple legal issues, to ward off attackers, to generate sufficient cash to meet payrolls and other liabilities, and to remain solvent.

Year One - 1982

As with any startup business, there were massive operational problems to overcome. We were attempting to open three plants and ten sales/distribution branches with untrained labor. Major suppliers were hesitant to provide raw materials and supplies since Bar-S had no proven track record. However, this problem was greatly tempered by the personal integrity of those Bar-S employees who had been a part of Cudahy and the meat industry for many years. The plants could not produce much output, productivity and yields were poor, quality was non-existent, and service to customers was terrible. Throughout a very long period of unreliable service, our sales force convinced customers to stick with us, and thereby protected that critically important asset of retail shelf space acquired from Cudahy. Competitive predators attacked our market position from all directions, which further compounded our basic operational problems.

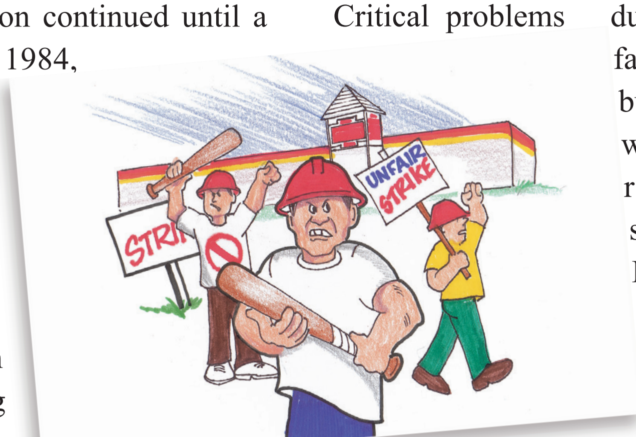
However, our biggest challenge came from the prior Cudahy unions who were determined to quash this upstart "union-free" enterprise. They filed twenty-two unfair labor practice charges against the Company and instituted consumer boycotts in many markets. The local UFCW Union at Denver attempted unsuccessfully to get an injunction against the closing of the transaction. Failing in that attempt, the union filed a lawsuit in Colorado State Court alleging Bar-S tortuously interfered with their collective bargaining agreement with Cudahy, and sought reinstatement of employees, back pay, and punitive damages. In addition, the Denver local refused to let their members go to work for Bar-S and started a sometimes violent picket line at the Denver plant. At Seattle about 25 to 30% of the old Cudahy employees accepted jobs with Bar-S at the lower but competitive wage rates offered by the Company. Thus the situations at Seattle and Denver were quite different as both plants commenced operations around mid-September 1981.

At Denver, except for management, office, and plant supervision, a whole new workforce with no meat processing experience was hired. Many of the new hires were Southeast Asians with very little knowledge of English. None of the supervisors at Denver could train employees on how to bone hams. Vice President of Operations, Keith Pace, was practically the only management person in the Company with that skill, and he had to work many long hours trying to bring up production. The positive side was that the threats and violence by union members made the new employees solidly non-union.

At Seattle the local union took a different approach and permitted its members to apply for jobs at Bar-S. The union then immediately started an organizing effort at the Seattle plant. An election was held in June 1982 and the union lost. However, the NLRB ruled that Bar-S had committed unfair labor practices and a new election was scheduled in 1983.

The operating engineers did win an election, but after long negotiations without achieving a collective bargaining agreement they essentially gave up. The positive side at Seattle was having some skilled employees, which helped bring the productivity of the plant up faster than at Denver.

The NLRB refused to issue any complaints on the 22 unfair labor practice charges filed against Bar-S. The Company obtained an injunction against the violent picketing at Denver in June 1982, and the picket lines eventually dispersed. The lawsuit filed by the Denver local union continued until a trial by jury in February 1984, wherein the Company was found not guilty of all charges. The local union went bankrupt and disbanded after this defeat.



Unfriendly Unions

The Clinton operation was a non-union joint venture with Norbest Foods producing packaged turkey products. The venture was not doing well, and Norbest offered Bar-S its interest for $220,000 on September 15, 1981. It seemed to be a bargain price for Bar-S, but Clinton continued to have severe production problems and created a $3 million loss for the Company the first year. At the end of the 1982 fiscal year, Clinton was treated as a closed location, and was downsized significantly. John Sirridge was named Plant Manager and was assigned the task of gradually correcting the situation so that the Company would not have to actually shut the plant.

Results at the Bar-S distribution centers were mixed. Phoenix and Los Angeles were profitable from day one. All other distribution locations ended up with losses for the year. The profit in Los Angeles was primarily from the sale of Rex lard, fondly referred to as "white gold." Phoenix earned their profit on a healthy mix of branded products, and fresh pork and beef. Except in the Phoenix, Denver, and Seattle markets, sales of Bar-S branded products were weak. From the start, the goal was to increase branded and primary product sales, and reduce or eliminate the dependence on fresh meat and private-label products. This goal took many years to achieve.

Critical problems during the first year were faced not only by the plants, but by other locations as well. Phoenix was leasing refrigerated warehouse space in the old Cudahy Phoenix plant. In late November and early December 1981, all the rodents from the plant converged on the small area leased as warehouse space. Rodent control became an impossible task and health officials threatened to shut the operation down. Phoenix management found a local distributor capable of handling the Bar-S business, and the entire inventory was transferred to that distributor the day before Christmas 1981.

Bar-S proceeded to make other moves to reduce its expense structure. It had inherited a small, unprofitable, over-the-road truck operation from Cudahy. Those trucks and trailers were sold by the end of the year and the operation was closed. Several distribution center managers resigned and were replaced. Eastern Region Vice President of Sales, Perry Dean, left the Company in August 1982, and Mike Mellison became Vice President of Sales and Marketing. Overall, most of the good employees stayed and fought for survival.

Cudahy Specialty Foods tried to take the canned ham business away from Bar-S, but this move backfired. Dick Pagone, the key sales and marketing manager for Cudahy, resigned and joined Bar-S, where he set up a Specialty Products Department to market canned hams and cook-in-bag products.

The first year of operation proved to be a serious financial setback for Bar-S. The original forecasted loss of $2.1 million turned into an actual loss of $5.6 million. The Denver and Clinton plants posted significant losses, with only Seattle showing improvements in the fourth quarter. Only the Phoenix and Los Angeles distribution centers made money. First Interstate Bank became extremely nervous about renewing the line of credit as financial ratios deteriorated, and negotiations commenced with General Electric Credit Corporation for a new $20 million line of credit. Even management was concerned as to when the losses would be brought under control. Although progress had been made, much more was needed in order to survive. ❖

History On Wheels

The old horse-drawn meat delivery wagon that sits in front of the Bar-S Altus plant has a remarkable history. The wagon is over 100 years old. It was originally owned by Frye Meat Packing Co., which built the Seattle plant in 1888. This wagon was one of the first delivery wagons used by Frye, and was eventually taken out of service and displayed in front of the plant.

In 1950, Frye sold, and became Seattle Packing Company, but the old meat wagon kept its place. Seven years later in 1957, Seattle Packing Company was acquired by Cudahy Company. The plant had another new owner, but the old meat wagon remained.

In 1981, Cudahy sold assets, including the Seattle plant, to a group of investors headed by Tim Day, who formed a new company named Bar-S Foods Co. In March of 1984, Bar-S closed the Seattle plant. However, the old meat wagon was not left behind. It was transported to Denver, Colorado, refurbished and given a place of honor in front of the plant.

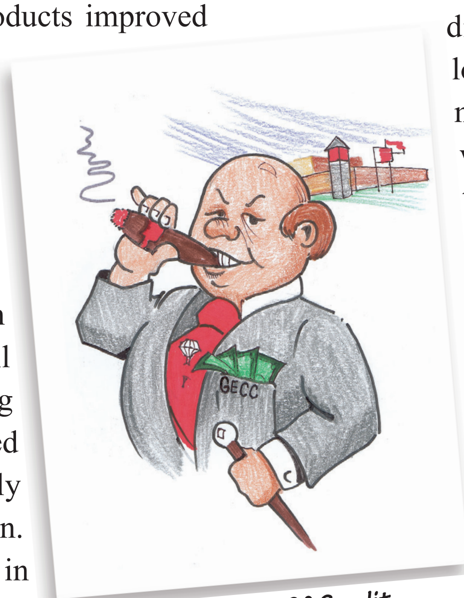
In April of 1996, the Denver plant was closed. Once again the old wagon was left without a home, but not for long. Our meat wagon was shipped to a new facility in Altus, Oklahoma, where a Bar-S employee and his family set about the task of making the wagon look like new again. It soon had a home in front of the plant.

The old meat delivery wagon has become a permanent part of Bar-S. You have to wonder if this wagon could ever have imagined the traveling it would do when it was built in the 1880s.

Year Two - 1983

Many of the positive actions initiated in the first year started to bear fruit, but additional problems appeared. Production output from the plants improved significantly, and overall sales volume of manufactured products increased by 5%. Sales volume in higher-margin branded products improved by 7%. The retail cheese line started growing rapidly. New products such as Tasty Dogs, Tasty Bolony, turkey hams, and smoked sausage were successfully established.

Significant new distribution with retail chains was achieved at all locations. In Seattle, our Marketing Manager, Lou Mastro, was contacted by the management of a newly formed warehouse club operation. The first store was about to open in Seattle, and more were on the drawing board. It wanted Bar-S to be the principal supplier of packaged meat and cheese products. This Company was a new entity with no credit history, and special, unconventional packaging would be required. Although we were hesitant, Lou convinced us to proceed, and a relationship was begun that would have great impact on the growth of our Company.



New Line Of Credit

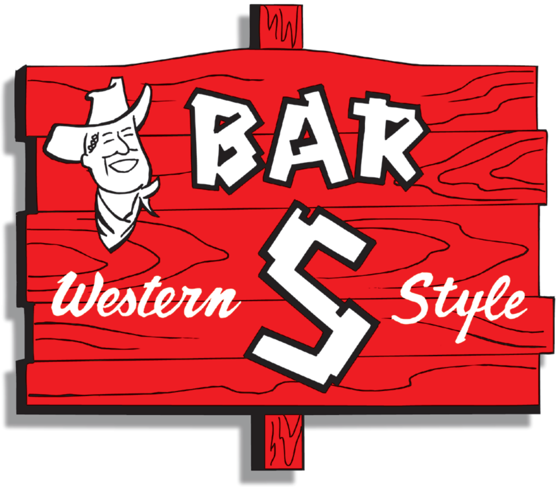
Results at Denver improved substantially, and Clinton started operating at a break-even level. Seattle showed slight improvement on an annual basis, but had heavy losses in some periods. There continued to be many organizational, operational, and sales problems to solve. In addition, the United Food and Commercial Workers Union won the second election at Seattle, and negotiations on a collective bargaining agreement commenced. The New Orleans, San Antonio, and San Francisco sales distribution centers all reported losses. San Antonio's loss was primarily due to introductory pricing, which was intended to bear fruit in the future. New Orleans and San Francisco had serious problems that needed to be evaluated.

The Company continued to hire new management at various locations, but only three of the fourteen new managers brought on that year had long-term careers at Bar-S. Joe Stewart joined the Company as Director of Marketing.

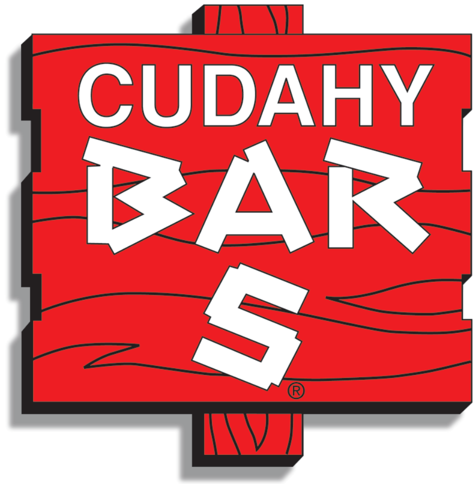
Despite dire warning from the MIS group of General Host, the Company discontinued all association and support activities with that group and began to successfully function with our own data processing equipment and staff.

In our second year of operation, the Company turned profitable and earned $914,000 on sales of $206 million. Year One was the last and only loss year for Bar-S. The Company made its first contribution of $90,000 to the Profit Sharing Plan and established the precedent of contributing 10% of profits after taxes each year. ❖

Evolution Of The Bar-S Logo



The Bar-S logo was first used around 1950 by Seattle Packing Company, located in Seattle, Washington. The "S" in "Bar-S" stood for "Seattle." The logo was designed to resemble a wooden sign made from rough, hand-hewn boards and nailed to a post. Originally, the logo included a picture of a cowboy and the words "Western Style."



In 1957, Cudahy Company acquired Seattle Packing Company and the Bar-S brand along with it. The cowboy and "Western Style" were dropped from the logo and the sign read, "Cudahy Bar-S." As Cudahy continued to use and promote the brand, it grew from regional prominence to a brand known across the United States.

Over the years, the Cudahy Bar-S logo went through a number of graphic changes, but still maintained the "signpost" look. In 1976, Cudahy branded product packaging was completely redesigned, and a new, modernized Bar-S logo was born.

When Bar-S Foods Co. was founded in 1981, the Bar-S brand was acquired from Cudahy along with other assets. The Cudahy name was removed from the logo and it became simply "Bar-S."

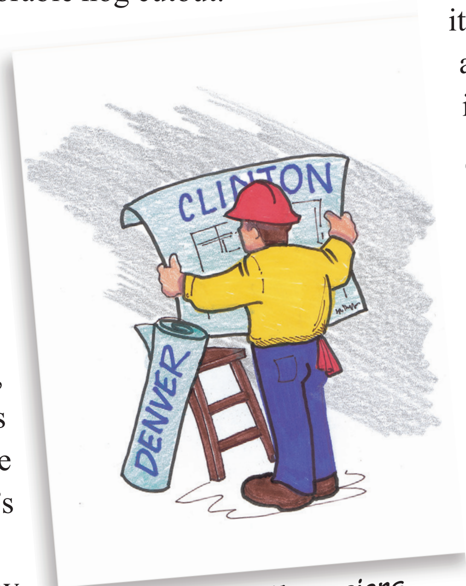
Phase II - Consolidation

Three Year Duration

At this point, the Company was alive but still very weak. During this phase, the emphasis was on consolidating activities and simplifying functions so as to gain strength and focus.

Year Three - 1984

Year Three was a year of progress and a major challenge. Seattle was not operating on a sound and reliable basis, in that profitability depended on the summer sausage season and a favorable hog cutout. Significant expenditures in excess of $1 million were needed to meet USDA requirements, and none of these expenditures would improve productivity or profitability. Negotiations had commenced with the UFCW on a collective bargaining agreement; however, based on past history, it was doubtful that the union would take into consideration the Company's severe financial problems.



Major Plant Expansions

Late in 1983, the Company started evaluating the ongoing viability of Seattle. After several months of analysis, it was determined that the plant could not be restructured into an economically successful operation, and it was decided to close the facility and transfer production to Denver and Clinton.

This course of action required a tremendous amount of management time to plan and coordinate these major steps:

1. Develop a detailed plan of action.
2. Make arrangements to source product from copackers for a transition period.
3. Prepare communication plans for our customers, suppliers, and employees.
4. Provide for an orderly close-down of Seattle and disposition of product, supplies, and equipment -- including the transfer of fifty truckloads of supplies and equipment to Clinton and Denver.
5. Open a new distribution center in Seattle, staff it with approximately 40 employees, and pro-tect the Bar-S market share in the Northwest.
6. Sell excess equipment and supplies.
7. Undertake major expansion and renovation projects at Clinton and Denver.
8. Staff Clinton and Denver for expanded operations.
9. Obtain alternative fresh pork supplies for the Northwest markets.
10. Arrange for the sale of Seattle real estate.

In January 1984, during negotiations with the UFCW, the union issued an ultimatum and the Company responded by advising that the Seattle facility was closing, and that the decision was final and non-negotiable. Formal notice of the closing was immediately given to the Seattle employees, union, customers, and general public. A closing package was negotiated with the union, and the closing of Seattle proceeded in an orderly manner on March 31.

The new distribution center in Seattle began operating profitably around midyear, and a supply of fresh pork was obtained from a Canadian slaughterer. The expansion program at Clinton was essentially completed at fiscal year-end. However, the Denver expansion took more time. The Gladd continuous smokehouse, transferred from Seattle, came online the first week in October 1984, and was expected to be fully operational by the end of the first quarter of 1985. At that point, the Denver and Clinton facilities had a combined production capacity of about two million pounds per week.

All slaughter activities for the Company had been eliminated, reducing sales of non-primary products and placing more emphasis on higher-margin packaged products -- and primary product volume increased by 5% that year. However, most distribution centers were still dependent on fresh meat products in their total sales mix.

Bar-S launched a branded cheese line and several new branded meat products including 4x6 chopped ham, 4x6 cooked ham, and 4½x4½ cooked ham.

The Immigration and Naturalization Service (INS) cleaned out a substantial percentage of our Clinton workers who were illegal immigrants. Tim Day was at Clinton when the INS raid occurred, and he called the Corporate Office saying, “We’re surrounded.” Most of the employees who were deported to Mexico returned to work within a week. Bar-S did not terminate any current employees who lacked legal status, but attempted to hire only legal aliens in the future.

Net income for this year was only $130,000, but the 1984 results included Seattle plant operating losses of $595,000, and an additional $700,000 loss provision to cover costs of closing the facility. ❖

Consumer Promises

Only the best is branded Bar-S®

From the very beginning, Bar-S promised consumers complete satisfaction with its products. This promise took the form of a Satisfaction Guaranteed seal printed on the package of virtually every Bar-S branded product.

A second consumer promise stated, “Only the best is branded Bar-S®.” This promise constituted a vow to produce only the highest-quality products, and soon became the Company's official slogan.

Bar-S Product Logos

Bar-S acquired the rights to a number of Cudahy brands when the Company was founded in 1981. During the 20 years since that time, several additional brands have been conceived and illustrated with distinctive logotypes. Although the array is impressive in number, the Bar-S signpost remains the Company's principal logo and appears on almost all of its packages.

Holiday®

TASTY®

Founders Choice® BAR S SINCE 1981

TASTY BOLONY®

Golden Country®

EL MARCA COCHINITO®

EZ Carve®

BEAN POT™ BRAND

CHEESE OF CHOICE T.M.

HEARTY LEAN T.M.

CAMPFIRE

Plainsman®

BAR S Wisconsin Tradition®

VIRGINIA STYLE CARVER®

Year Four - 1985

The major restructuring and expansion of the Denver and Clinton production facilities continued. At Denver, installation of the large continuous smoked meat processing system, and modernization of the ham boning, curing, and blending systems were completed. Denver also began a major renovation of the warehouse to accommodate expanded regional distribution. Total capital spent in Denver during 1985 was $1,827,000.

Winner's Circle Begins

The Clinton changes consisted of a building expansion, additional smokehouses, refrigeration improvements, and updated slicing and packaging equipment. Total capital spent in Clinton during 1985 was $1,329,000.

Total sales volume increased by 1%, but branded product sales volume improved by 10%. Bar-S had impressive sales increases in sliced bacon, sliced luncheon meats, sausage, canned hams, canned luncheon meat and cheese. This sales growth occurred in the last six months of the year and continued into 1986. New products were introduced including Virginia Reel Ham, Low Salt Bacon, and an eight-item Lite Line.

A major new emphasis was placed on Foodservice; a Foodservice logo was developed and key sales personnel were hired.

The Seattle real estate was sold for $3,120,000 -- resulting in a gain of $335,000, and a significant reduction in the note payable to General Host. Net income for 1985 was $724,000. Denver reported a $1,583,000 loss due to the expansion, and major repair and maintenance projects.

The Winner's Circle Program recognizing employee achievements started this year. ❖

Year Five - 1986

Net sales revenue was a record $212 million, an 11% increase over 1985. Sales volume also increased 11% to 203 million pounds. Primary product sales increased 19% and branded sales grew 22%. Sliced bacon led this growth.

Most operating locations had impressive sales gains, with San Francisco experiencing an improvement of 53% over 1985. The growth at San Francisco was not only due to increased sales of Bar-S products. This location also served as a perishable products distribution center for a large West Coast warehouse club operation.

Production capacities at Denver and Clinton increased 13% to 2.5 million pounds a week. Clinton had a net profit of $135,000, while Denver incurred a $1,306,000 loss.

Atlanta, Los Angeles, and Phoenix all reported profits, while New Orleans, Salt Lake City, San Francisco, and Seattle had losses. The distribution center in Salt Lake City was closed, and all sales were transferred to a large distributor who was serviced directly out of Denver.

Specialty Products continued to be the star performer. It reported net income of $1,094,000 and was the first distribution center to earn more than $1 million. Also, the successful growth of the Bar-S sliced cooked ham line improved overall gross margins by $466,000.

Branded Products Up 22%

The Company's loss at New Orleans almost doubled to $534,000. The fresh meat business that had been the backbone of this unit dropped 47% due to changing market conditions. To improve the sales picture, we took over the business of a former customer conducting wholesale distribution to oil rig caterers. It was anticipated that this would increase our sales by 30% with higher gross margins, and provide better utilization of all employees and the facility.

Net income for 1986 was $1,016,000 -- a record year. However, net income included a non-recurring gain of $258,000 from the sale of a common stock investment.

A new five-year revolving credit agreement was entered into with General Electric Credit Corporation. The price of common stock reached $6.00 per share. Al Stitt retired after 47 years of combined service to Cudahy and Bar-S Foods. ❖

The Winner's Circle program was developed to provide a formal and systematic method of recognizing and rewarding superior performance. Points are awarded on a team and individual basis, and accumulate in an account for each employee. Over time, employees reach various Winner's Circle Award levels.

Phase III
Foundation Building
Five Year Duration

With survival assured, the Company was able to start working on improving basic skills and developing the necessary foundation to launch a successful long-term strategy.

Year Six - 1987

Year Six was a year of solid financial gains as well as other improvements. In January 1987, we negotiated the exchange of the $10 million of preferred stock (which had extended repayment terms) with General Host for $5.2 million of a new preferred stock that had an annual dividend of 5.76%. We immediately paid off $1 million, and the balance was to be paid over four years starting March 1, 1989. This exchange resulted in additional paid-in capital of $4,840,000 and changed our balance sheet dramatically.

Fit To Win Begins

Earnings were a record $3,284,000, up 223% from 1986. Net sales revenue grew to $251 million, an 18% increase from the previous year. Primary product sales volume was up 5%, and branded product sales volume was up 4%. Sliced luncheon meat sales were up 15%, canned hams increased 22%, and cheese sales were up 25%. Secondary products increased 47% due to Northern California's distribution business. We started a Midwest distribution center for a large warehouse club operation -- but the stores did not do well, and they, along with our distribution center, were eventually closed.

During 1987, we introduced service deli products under the President's Pride label with good early sales results.

Profitability in 1987 would have been even more impressive except for major problems at our New Orleans and Seattle distribution centers. Combined losses for those two locations were nearly $2 million.

The attempt to enter the offshore oil drilling supply business in New Orleans proved to be a disaster, and this endeavor was discontinued in February 1987. In addition, all local Foodservice business was discontinued, and emphasis was placed on drop shipments of branded products to retail warehouse accounts.

Seattle's problem centered primarily on the low margins and high overhead expenses associated with the sale of fresh meat to a number of small accounts. Therefore we discontinued fresh meat sales which virtually eliminated warehousing activities, and replaced management.

Our production facilities functioned extremely well, with productivity at both plants reaching record levels. Ham boning and belly skinning operations were started at the Montbello facility in Denver. Denver's warehouse was renovated.

Two new programs benefiting Bar-S employees were launched. Effective January 1, 1987, the Company adopted a 401(k) Deferred Savings Plan, which allowed eligible employees to defer up to 6% of their compensation and the Company would match

50% of the employees' contributions. The Company's matching contributions in 1987 were $86,000. The Company also made a $331,000 contribution to the Profit Sharing Plan.

Tim Day started a fitness program called Fit To Win, with particular emphasis on less active senior management. Management personnel could earn points in six fitness categories: stop smoking, weight loss, push-ups, sit-ups, chin-ups, and a walking/running event. The participants' success at reaching their fitness goals was to be evaluated at a Fit To Win Olympics to be held during the next Managers Meeting. Jackie Paisley, a female body builder finalist in the Miss Olympia Contest, kicked off the program.

Ken Stinn began his Bar-S career as Manager of the Northwest distribution center. ❖

Year Seven - 1988

The Seventh Year of Bar-S was also memorable with record net income of $5.7 million, a 74% improvement over 1987. The results were even more impressive on a pre-tax basis. Pre-tax net income was $8.3 million, a 143% improvement over 1987. During fiscal 1988, the Company used up all remaining tax loss carry-forward deductions, and Bar-S incurred full federal and state income taxes for the first time.

Sales revenue of $253 million was comparable to 1987, but unit sales volume grew by 9% to 223 million pounds. Our sales mix continued to move away from fresh meat and private-label products. Primary product sales grew by 15% and branded product sales by 20%. Branded smoked meat sales led the way, with boneless hams up 41% and sliced bacon up 35%.

The Company's balance sheet had become so strong that numerous commercial bankers now sought our account. On October 4, 1988, a loan agreement was entered into with First Interstate Bank of Arizona, providing for a $15 million unsecured line of credit loan at the prime rate of interest.

The Company's common stock was now valued at $14.92 per share. Until July 14, 1987, the holders of at least two-thirds of the outstanding shares of Common Stock established the price of the common stock of the Company each year. On this date, a new pricing method was approved by the shareholders to be effective at the end of the 1987 fiscal year. The stock price was to be established at the end of each fiscal quarter, based on a formula using the average of the previous five years' historic earnings, multiplied by a discounted industry index and averaged with the book value of the stock. The stock was split two for one during 1988.

The Company adopted a new and revolutionary process called Quality First. Every employee received formal training in the tenets of Quality First and was dedicated to Doing Things Right The First Time. We began to measure our Price Of Non-Conformance and were striving for Zero Defects at each location. Our Team Pledge was, "We will provide defect-free products and services to our customers by doing things right the first time." The soul of Quality First was the Company's philosophy that "quality is first among equals with cost and schedule" -- that is, quality will always take priority.

The first Fit To Win Olympics was held during the 1987 Managers Meeting, with 37 key employees and Officers competing. Out of the seven smokers at the start of the program, four had quit smoking for nine continuous months. Several individuals posted large weight losses, and as a group, the Bar-S management team lost an average of 8 pounds per person. Leroy Vickery, Denver Sales Manager, was the overall champion of the Senior Olympics (over age 50) and Tim Day took the overall honors in the regular Open Olympics. Fit To Win Olympics were also held at Clinton and Denver.

Winner's Circle lotteries were held at Clinton and Denver with the top prize being a one-week vacation for two in Hawaii, including an extra five days of vacation and $450 spending money. A similar lottery was also held for the sales and support team.

Bar-S continued its 10% after-tax contribution to the Profit Sharing Plan with a $571,000 contribution. The Company also matched 50% of the employees' contributions to the 401(k) Plan.

"Quality First" Arrives

Clinton implemented a new offsite warehousing system by renting refrigerated space in a local beer distributor's warehouse about one mile from the plant, which increased storage capacity and freed up production space at the plant.

Keith Pace, Vice President of Operations since our start-up in August 1981, retired in January 1988 after 49 years in the meat industry. Keith began his employment with Cudahy Company in March of 1939 at the plant in San Diego. At the 1987 Managers Meeting, Keith's frock, with number 1 on the back, was officially retired. Michael Paquette joined the Company and replaced Keith as Vice President of Operations. ❖

FIT TO WIN

The Fit To Win program promotes physical fitness, and general good health and wellness.

QUALITY FIRST

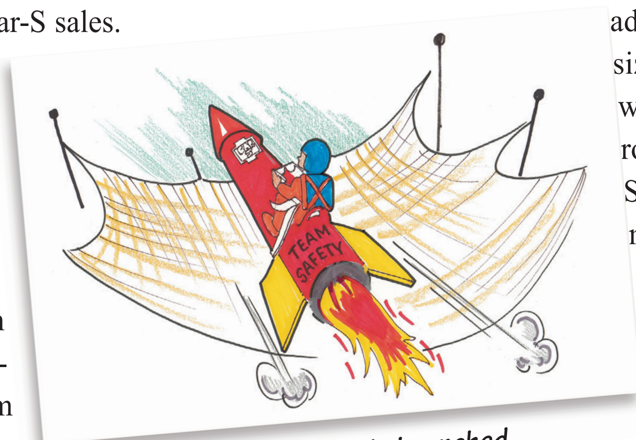
Quality First and the Team Process drive continuous improvement in every aspect of our business, and encourage employee involvement and problem solving.

Year Eight - 1989

Income before taxes decreased 13% to $7.2 million, but the pre-tax return on shareholders investment was still 49.8% -- an excellent return by industry standards.

Sales volume increased 1% to 224 million pounds and primary product volume increased 5% to 126 million pounds. Franks and sliced lunchmeat sales grew by 9% and 11% respectively. Branded sales volume now accounted for 56% of Bar-S sales.

Major restructuring of our plants and distribution centers occurred this year. After much study and work with Iowa Beef Packers, we discontinued our costly and inefficient boning operation at Denver and started to purchase boneless hams from IBP. Our San Francisco operation was moved to a new high-cube warehouse, and distribution of secondary products to southern California and Hawaii was terminated. We also eliminated warehouse activities in New Orleans and San Antonio, and consolidated distribution through the Clinton warehouse.



Team Safety Is Launched

Capital expenditures of $2.4 million enabled us to increase our production capacity 12% to about 3.3 million pounds. In Clinton, a 14,500-square-foot addition was started, and in Denver there were more renovations to the warehouse.

Costs for worker's compensation increased significantly due to an unusual number of accidents in fiscal 1987 and 1988. The Team Safety program was initiated to help reduce our injuries and illness rates. Safety Committees came up with a number of good ideas, and Team Safety posters were placed throughout the plants. A significant number of the injuries were strains and sprains caused by repetitive motion. Many of the problems causing these strains and sprains could be solved by ergonomics -- the science of workplace design -- and our insurance company conducted an ergonomics study at our plants. Elements of ergonomics were rapidly implemented such as adjusting workstations to the size of the person, reducing weights lifted or pushed, and rotating people to different jobs. Safety statistics improved dramatically in fiscal 1989.

Steps were also taken to ensure a safer place to work by striving for a drug-free environment. In December 1988, we started testing all new hires for illegal drugs. Beginning January 1, 1989, anyone believed to be under the influence of controlled or illegal drugs was to be tested. Bar-S also established an assistance program of professional counseling to help anyone with an alcohol or drug-related problem.

Overall upgrading of the Bar-S computer system, which was started in 1987, was well under way. All locations were up and running on the new, in-house payroll and accounts payable system.

Prior to 1989, Bar-S had maintained a low profile, with no organized effort at public relations. This year the Company retained a public relations consultant to assist Bar-S in building a positive company image, crisis management, and effective communications with customers and employees.

Bar-S moved to a new Phoneix Corporate Office at the corner of Central Avenue and Indian School Road designed from scratch to the specifications of the Company. A favorable ten-year lease was negotiated.

The Company's financial condition continued to improve. Another financial milestone was achieved when Bar-S fully redeemed the balance of the preferred stock held by General Host. This was the last financial obligation relating to the acquisition of the Cudahy assets. Except for a $1,314,000 long-term loan, Bar-S was debt-free. ❖

Year Nine - 1990

Year Nine was another year of new records. Income before taxes for fiscal 1990 was a record $10.7 million -- a 50% increase over 1989. Sales revenue reached $300 million, another record and a 19% improvement over 1989. Total sales volume increased 3%, primary product volume increased 7%, and branded sales volume increased 6%. Branded product sales volume now accounted for 58% of our total sales.

$ 300 Million In Sales

Sausage products achieved outstanding growth, with franks increasing 31%, and sliced luncheon meats increasing 22%. Smoked meat sales volume declined. Ham volume was impacted by an intentional effort to reduce sales of private-label hams. Sales of fresh beef and pork products declined due to a planned phase-out of those product lines.

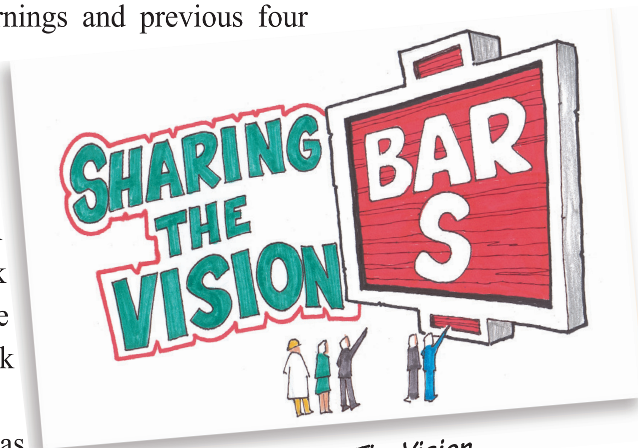
The 14,500-square-foot expansion of the Clinton plant was completed early in the year. A total of 10,000 square feet was added to the processing area, and 4,500 square feet was dedicated to the employee welfare areas. The 75,000-square-foot Clinton facility produced hot dogs, sliced luncheon meats, and specialty sausage items. Prior to Bar-S assuming operation of this plant in 1981, weekly production was less than 200,000 pounds. Now the weekly capacity was 1,550,000 pounds. The expansion proved successful, and Clinton contributed $6.1 million to our profitability, compared to $1.9 million in 1989. Most other profit centers also had improved results.

In July, Bar-S discontinued distribution of secondary products at the San Francisco CSC (Customer Service Center) -- a move designed to improve profitability at that location.

Team Safety functioned well in 1990 -- total lost-time accidents declined 79% and the rate of incidence was 41% below the meat industry average. All plants achieved a record number of days without a lost-time accident Productivity improved at both Clinton and Denver, and employee turnover declined by 31%.

The Company changed from a "C" Corporation to a "Sub S" Corporation. This meant all income was taxed pro-rata to the shareholders, thereby avoiding future double taxation. A new Stockholder Agreement was entered into which changed the annual pricing of the Company's stock. The pricing method required the stock to be valued at the end of each fiscal year. The formula used the average of the previous three years' pre-tax earnings and previous four years' outstanding shares, reduced by the statutory "C" Corporation tax rate, and multiplied by a discounted industry index. A two-for-one split of the stock was also authorized, and the value of the Company's stock was now $30.36 per share.

The Board of Directors was increased to five members, and Harris Ashton, Chairman of the Board of Directors and Chief Executive Officer of General Host Corporation, joined the Board.



Sharing The Vision

Although Tim had been working on a long-term vision and strategic direction for the Company for several years, only Officers had participated in these discussions. In 1990, it was decided that the time was right to "Share the Vision" with the entire organization. At that point in our history, "Our Vision" might well have seemed presumptuous -- but in point of fact, it proved to be a sound strategic guide for our future development and success. ❖

The Team Safety program stresses good safety habits and the elimination of hazards.

Bar-S Benefits protect employees and their families.

Our Philosophy And Beliefs

WE WILL become the **Premier Company** in the packaged food industry -- thereby achieving superior growth, high return on investment, and a positive environment for personal development and job satisfaction.

WE WILL deliver **real value** to the marketplace -- providing high-quality, defect-free products and services to our customers on a cost-effective basis by "doing things right the first time."

WE WILL strive for **excellence** in everything we do, with enthusiasm, perseverance, and pride in our Company.

WE WILL outperform our competition by relentlessly pursuing **continuous improvement** in all aspects of our business.

WE WILL develop **close partnerships** with our customers and suppliers, with the attitude that "we succeed only when they succeed."

WE WILL be a lean, physically fit, hardworking, and action-oriented Team -- and we will **lead by example**.

WE WILL treat each other with **dignity and respect** -- and everyone will be evaluated on the basis of performance and results.

WE WILL create a **friendly, informal atmosphere** where everyone is encouraged to express their feelings, ideas, and opinions.

WE WILL deal with customers, suppliers, and each other with **honesty, fairness, and integrity** -- and we will do what we agree to do.

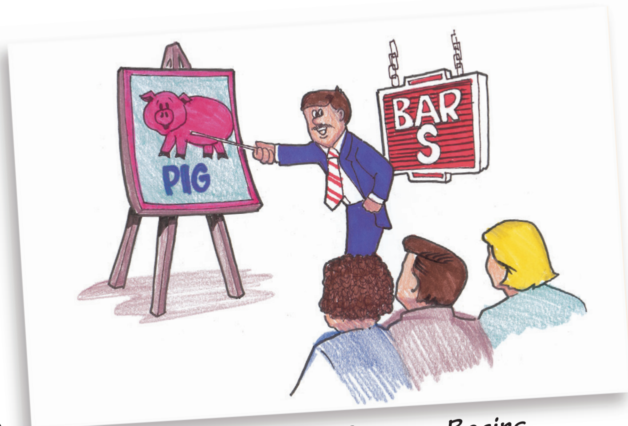
WE WILL comply at all times with applicable laws, regulations, and ethical standards -- and be a **valued member** of the community.

Tenth Anniversary - 1991

Bar-S continued to perform at a record pace -- primary product sales volume, branded sales volume, profit margins, customer service levels, customer satisfaction surveys, production output, safety, computer up-time, net income, cash in the bank, and common stock value per share all reached historic highs.

Income before taxes was $13.4 million, another record profit and a 25% improvement over 1990.

Sausage products continued their rapid growth. Franks and sliced luncheon meat sales grew at 19% and 14% respectively. The Company's orientation to poultry formulated products was well received in th marketplace.Smoked meat sales volume increased only modestly.



Major Training Program Begins

During the year, a number of steps were taken to become more efficient and reduce excess overhead. All bacon skinning and thawing activities were moved to the Denver facility, and operations were discontinued at Montbello. Warehousing and delivery activities at both the Northern California CSC and Southern California CSC were discontinued, and the CSCs relocated to new modern sales offices.

Early in 1991, major organizational changes were initiated. A new Foodservice/Deli Division headed by Joe Stewart was established. Most of the year was spent formulating or reformulating much of the product line required for the Foodservice and Service Deli market segments and building the necessary sales and distribution support. All military sales were consolidated under a single broker sales organization. And, our first international sales efforts were launched.

One of our original founders, Mike Mellison, retired in 1990. John Sirridge was promoted from Manager of Clinton to Vice President of Retail Sales, and the Retail Division was divided into three major sales regions: Western, Central and Southern. Ken Stinn took over as Manager of Clinton.

A comprehensive training program was established, with the goal of providing all Bar-S employees with at least 30 hours of formal training during the year. The concepts of "World Class Manufacturing" were incorporated into Quality First as the basis of our "Continuous Improvement Process."

A new two-phase expansion was started at Clinton that would add 45,000 square feet at a cost of over $7 million, with scheduled completion in February 1993. The project would ultimately increase production capacity to about 2 million pounds per week. The slicing of cooked ham was transferred to Denver, and negotiations for the construction of a major new facility in Altus, Oklahoma, were begun. ❖

QUALITY FIRST BAR S

BAR S Foods
A Sigma Company

Mission:

We will make Bar-S Foods the Premier Company in the packaged food industry. Premier in the eyes of our Customers, Suppliers and Teammates.

Pledge:

We will provide Real Value to the marketplace by delivering high-quality products and services at the lowest possible cost.

BAR S Foods
A Sigma Company

Commitments:

- I am a team player with a positive attitude.
- I treat others with dignity and respect.
- I am honest and reliable.
- I keep myself mentally and physically fit.
- I take pride in my work and my Company.
- I do my job right the first time, every time.
- I work safely and report unsafe conditions.
- I practice cleanliness and good housekeeping.
- I believe in Quality First, Innovation, and Continuous Improvement.
- I make Total Customer Satisfaction my number one priority.

Phase IV
Centralization Of Operations
Five Year Duration

During this phase, the focus was on building our first world-class, high-speed production facility, and the centralization of all distribution and manufacturing activities into Oklahoma. Thus, the Company was laying the groundwork to embark on an ambitious growth program that would transform Bar-S from a regional to a national marketer.

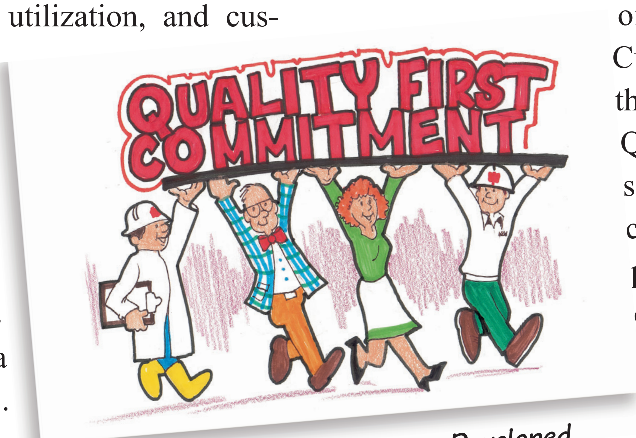
Year Eleven - 1992

Performance in year eleven continued at a record pace -- net income, primary product sales volume, branded sales volume, profit margins, cash in the bank, customer service levels, common stock value, production output, capacity utilization, and customer satisfaction were all at historic levels. Bar-S common stock split two shares for one for the third time since the Company was founded.

Income before taxes was $15.6 million, which was a 17% improvement over 1991. Total sales volume grew 12%, with sliced bacon up 20%, franks up 17%, and sliced luncheon meat up 23%. Sales of canned and cook-in-bag hams and cheese declined.

This was a foundation year for the expansion of our production capacity. During the year, much progress was made on the 45,000-square-foot expansion at Clinton. The City of Altus, Oklahoma, welcomed us with open arms by providing a building site and raising $6 million through a new 5-year sales tax to help fund the new plant. Once the planning and contracting for the 138,000-square-foot plant was completed, construction began in October 1992, with an expected operational date of mid-1993. This plant was to be built in two phases and equipped in four phases. The first phase was to increase frank production capacity by 1.4 million pounds per week. When all four phases were completed, total production capacity would be approximately 4 million pounds per week.

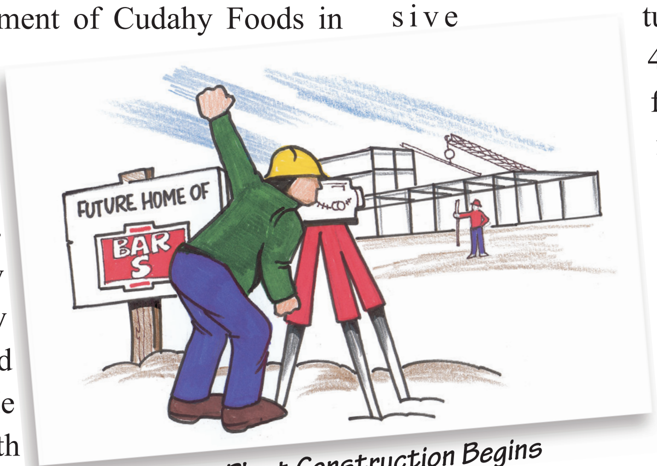
This was also a pivotal year for Quality First -- our continuous improvement process -- a year of revitalization, a year of rededication, and a year of refocusing on Total Customer Satisfaction. To this end we reorganized our Quality First management structure, streamlined and clarified communications procedures, and revamped our entire training process. In addition, we developed a new Quality First Commitment to complement our Quality First Pledge and Principles, and began the practice of all Bar-S team members reciting the Pledge, Principles, and Commitment as part of their daily regimen.



Quality First Commitments Developed

It was also a year of sadness with the loss of

Richard Pagone, Senior Director of Specialty Products. Dick was a unique individual. He was sometimes abrasive and difficult to work with, but he was very astute regarding the ham market and cook-in-bag products. He was well respected by the sales force and management because of the high profitability of his product line. Dick joined the Specialty Foods Department of Cudahy Foods in 1971, and remained with that company when Bar-S started up in 1981. However, he quickly became dissatisfied with the new management of Cudahy Specialty Foods and joined Bar-S in 1982. He was a one-man show with an administrative assistant, an eastern sales representative, and a small eastern broker network. He used co-packers to build our cooked ham and chopped ham products into a large and highly profitable business. Eventually Clinton was able to manufacture these products. Dick created a major profit center during the formative years of our Company, and was a very important factor to the early success of Bar-S.



Altus Plant Construction Begins

Robert Uhl was promoted to Senior Vice President, Finance; Mike Paquette resigned and Ken Stinn was promoted to Vice President of Operations to manage the newly reorganized Operations Division with headquarters in Clinton, Oklahoma.

Corporate Office employees participated in two community service projects in Phoenix. Bar-S sponsored a homeless family through the non-profit Homeward Bound organization. The goal of the program was to get homeless families back on their feet and self-sufficient in a rented home within twelve months. The Company also started a long-term partnership program with Longview Elementary School (an inner-city school) in Phoenix. Bar-S employees participated in an extensive tutoring program for 3rd and 4th graders and also hosted the first annual Hot Dog Cookout for all students and faculty members at the end of the school year.

The following quote from the President and Chief Executive Officer's letter in the 1992 Annual Report best expressed the Vision of Bar-S for the future:

"We believe that Bar-S is prepared for the challenges of the 1990s because:

Our **Vision** is clear,
Our **Plan** is simple, and
Our **Foundation** is strong.

Our Vision is to become the recognized PREMIER COMPANY in the packaged meat industry, serving the value-oriented segment of the market on a national basis -- a Premier Supplier in the eyes of our customers, a Premier Customer in the eyes of our suppliers.

Our Plan is to continuously improve all aspects of our business in order to deliver real value to the marketplace with high-quality, defect-free products and services on a cost-effective basis -- thereby achieving Total Customer Satisfaction, superior growth, high return on investment, and a positive environment for personal development and job satisfaction.

Our Plan is simple and extremely powerful -- but extraordinarily difficult to actually implement. We intend to become a national marketer by 1997, expanding within existing geographic markets and, at the same time, launching major thrusts into new geographic markets and new market segments using our existing core product line and the principle SEGMENT, CONCENTRATE, AND DOMINATE.

$ 15.6 Million Profit

Our Foundation is built on excelling in the basics, relentlessly pursuing continuous improvement, and focusing on:

Being an industry leader in quality.

Being a low-cost producer.

Having a strong customer-driven orientation.

Building a winning TEAM.

Providing sound management.

High Quality, Low Cost, Customer-Driven, and Teamwork -- these are the building blocks of Our Foundation. Sound Management is the cement that bonds these blocks together in a planned and coordinated manner so that the strength of Our Foundation is far greater than just the sum of the individual blocks.

Our Vision, Our Plan, and Our Foundation represent the strategy that our Company has been pursuing for a number of years. This is perhaps why we have succeeded during a period when many in our industry have struggled or failed, and why we look to the decade of the 1990s with confidence. Of course there are many challenges ahead and many mountains yet to climb -- but we believe OUR VISION IS CLEAR, OUR PLAN IS SIMPLE, OUR FOUNDATION IS STRONG -- AND OUR FUTURE IS BRIGHT!”

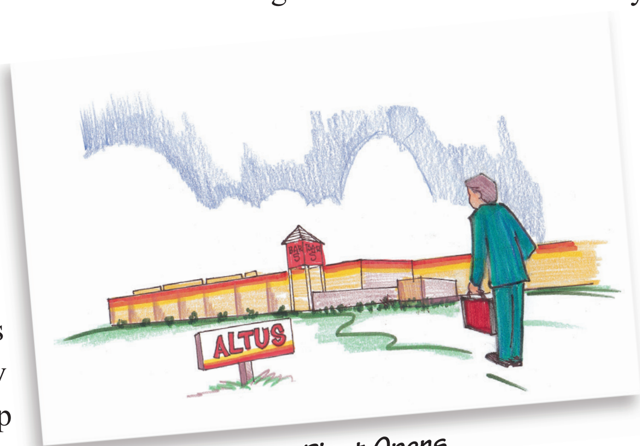
Tim Day, President and
Chief Executive Officer

❖

Year Twelve - 1993

This was a year of progress and an unexpected challenge. We thought we knew how to design, build, and operate a high-speed production facility and a high-cube, high-tech warehouse. We were right regarding the new Altus continuous frank line, which started up smoothly, but we were very wrong regarding the warehouse. The new Altus centralized warehouse was supposed to be fully computerized when it opened in May, but the purchased software was defective. As a result, inventory management got totally out of control, and no one knew what product was in the warehouse, where it was located, or what the code dates were. We experienced serious customer shortages, and large amounts of product went out of code. This probably created more customer dissatisfaction than the problems experienced during our initial year of operation, and our sales force deserves great credit for not losing any major customers.

This disaster resulted in the termination of a number of people, and the Corporate Officers spent two weeks in August at Altus taking a complete inventory. The computerized system was scrapped and a temporary hand card system was set up to record everything the old-fashioned way. It was a hard lesson, but we did learn. Eventually our own IS people developed an automated scanning system that worked well.



Altus Plant Opens

Income before taxes declined to $6.4 million, far below 1992 and expectations. However, we did implement a number of major changes during the year. These included opening the new Altus plant and warehouse; completing the Clinton expansion; moving boneless ham and cook-in-bag ham production from Denver to Clinton; reorganizing product management; and launching our national sales thrust with the opening of a fourth Sale Region. So in some ways, it was a year of progress and broadening of our operational base.

Primary and branded sales were 98% and 101% of 1992 volumes respectively. Branded sales margins dropped from 15.6 cents in 1992 to 11.8 cents per pound. On a product line basis, most categories increased except boneless hams. The Foodservice business continued to perform at less than satisfactory levels.

We completed the installation of a totally new central information system without any interruption in service. This new system greatly increased our processing speed and the ability to implement new computer applications.

A new office for the Operations Division opened in Clinton. All product management activities were centralized in this facility under John Beyer.

The Five-Year Plan and Strategy were updated, market segments were identified, and the expansion of sales locations and personnel were mapped out by year. Necessary increases in production capacity was also defined as Bar-S started to prepare for the millennium.

The Company continued its community support by again being a corporate sponsor for the 10th Annual American Cancer Society's "Climb the Mountain" fund-raiser in Phoenix, Arizona. ❖

Year Thirteen - 1994

Year Thirteen produced many accomplishments, but was another year of disappointing profitability. Income before taxes was $4.5 million, down $1.9 million from 1993. Profitability was adversely impacted by strong competition in several key markets; higher than expected advertising and promotional expenses, mainly in expansion markets; and expenses related to the reorganization of our warehousing operations.

Total sales volume was down slightly. Primary product volume was the same as 1993, and branded product volume increased 2%. Retail Division results decreased substantially, and Foodservice/Service Deli Division results decreased primarily due to a major loss of cheese business.

During the year, we took significant steps to ensure future sales growth in the Retail Division:

• The Division was reorganized by consolidating four Sales Regions into three. This reduced our administrative expense while allowing us to better utilize our management capabilities.

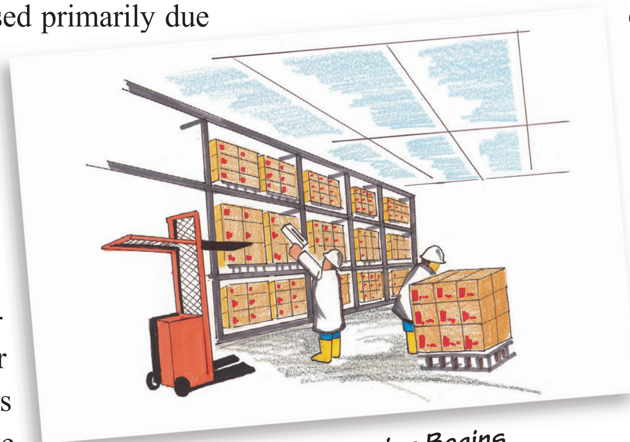
• Sales territories were extended to a total of 47 states, which brought us very close to our objective of being a national sales organization.

• A new product management system was implemented that improved our customer service level and allowed us to better control inventory.

• The product line was streamlined by reducing the number of products handled from 552 to 436. This improved our production and warehouse efficiencies.

• All retail packages and labels were redesigned to incorporate the new USDA nutritional labeling requirements.

• Our sliced luncheon meat and boneless ham product line packaging was completely redesigned with a fresh, modern look.



Warehouse Scanning Begins

• A new boneless ham marketing strategy was formulated to achieve broader distribution with higher everyday sales and less reliance on seasonal holiday deals.

• Export/Military sales increased 34% to 11.1 million pounds with market expansion into Russia.

The installation of state-of-the-art cook-in-bag equipment was completed at Clinton.

During the year, we revitalized Quality First again with the introduction of Team Process. This is a powerful concept where Process Improvement Teams (PITs) study their work processes, and their supplier and customer requirements, and seek to identify, quantify, and eliminate waste. We completed 43.1 hours of training per employee.

The Winner's Circle and Fit To Win programs were also revitalized by linking them together in a meaningful way.

The UCC/EAN 128 Bar Code Scanning System was partially implemented for the first time -- although significant modifications and improvements were still needed.

Morris Kinne, Vice President General Counsel and Secretary of the Company, retired. It was decided not to hire a replacement, but rather to retain a major, full-service law firm to provide all needed legal services. Morris acted as a consultant in calendar 1994 to assist in the transition, and he remained a member of the Board of Directors of Bar-S. ❖

Bar-S Company Themes

Many different themes have been used as a rallying cry for Team Bar-S. Often these themes reflected a stage in the Company's evolution. At other times, the theme celebrated a particular event. These colorful logos illustrated those themes.

COMMITTED TO EXCELLENCE

BEST OF CLASS

POP
PROVE OUR POTENTIAL

SHARING THE VISION

FORGING OUR DESTINY

10 Years of Excellence
1981 - 1991

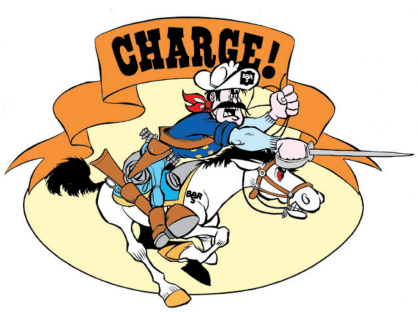
VISION 2001

Lead On!

Pursuit of Excellence
BAR S
SINCE 1981

We Can!

BAR S
Driving For Growth



MADE IN OKLAHOMA
BAR S

BAR S
QUANTUM LEAP

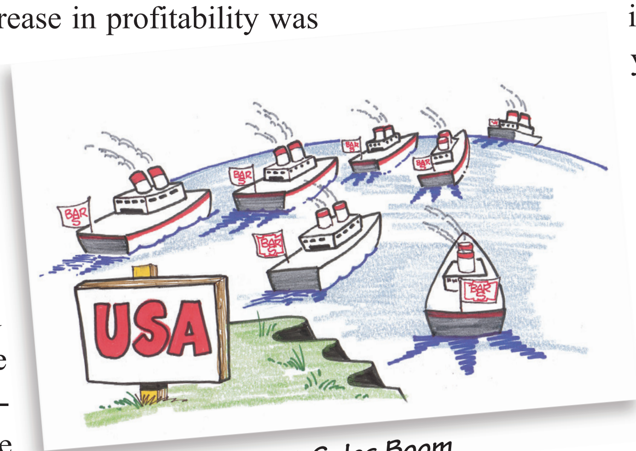
BACK TO BASICS
BAR S

BAR S
The Value Leader

PREMIER COMPANY
BAR S
VALUE LEADER
GO FOR GOLD

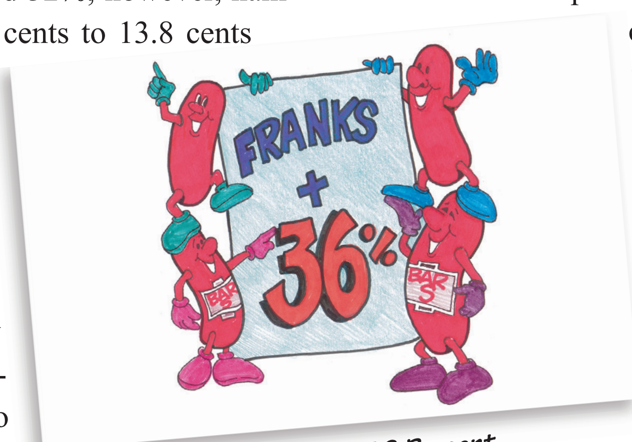
Year Fourteen - 1995

Income before taxes edged up to $5.4 million, a 20% increase over 1994. These results were after deducting $900,000 for expenses relating to closing the Denver plant. The increase in profitability was primarily due to significant improvements in the Operations Division.



Export Sales Boom

Total sales volume increased 7%, primary product sales volume increased 8%, and branded product sales volume increased 11%. Sales volume of our top three product categories grew, with frank sales up an outstanding 36%. Boneless ham sales decreased 32%; however, ham margins increased from 4.2 cents to 13.8 cents per pound, reflecting the "Ham For All Seasons, Ham For All Reasons" strategy. All Retail Division Sales Regions reported increases. Export sales continued to grow impressively with a 164% increase, primarily because of sales to Russia and Pacific Rim countries.



Frank Sales Up 36 Percent

We continued to streamline the product line by further reducing the number of primary products handled from 436 to 396, and expected to be down to 300 active products by year-end 1996.

A new ham line focused on everyday premium value. The line featured Smoked, Honey, and Black Forest style hams packaged in attractive printed bags. In addition, most of the new items were sold on a net-weight basis.

The Company's safety statistics showed record improvements over previous years in each of the primary safety indicators, and were significantly better than industry averages. Worker's Compensation expense was the lowest in Company history.

The Altus plant Phase Two expansion started during the fourth quarter, with an expected completion date of the spring of 1996 at an estimated cost of $16.1 million. This expansion would increase frank capacity by 1.1 million pounds per week and would replace the Denver bacon operation with a new state-of-the-art facility capable of doubling our bacon production capacity to about two million pounds of bacon per week.

An automated warehousing system was implemented at our Altus Distribution Center but further fine-tuning of the system would be required. This system helped us reduce inventory levels, inventory variances, and customer shortages while improving labor productivity. ar-S was one of the first companies in the industry to implement a shipping container bar-code system utilizing the new UCC/EAN 128 standard. Many information system enhancements were completed during the year, including the implementation of EDI (Electronic Data Interchange) technology to better serve our customers. ❖

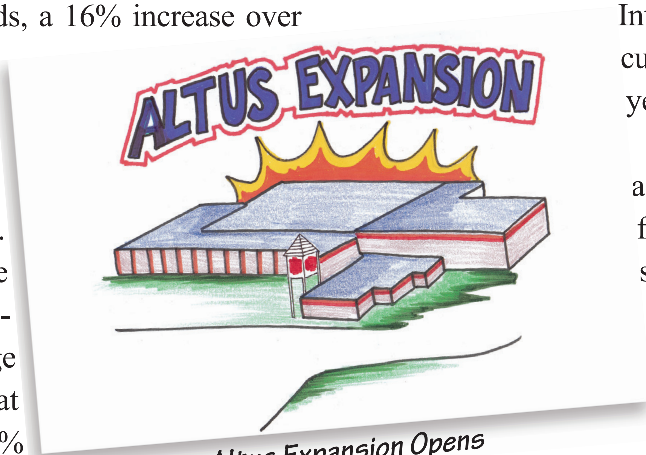
Year Fifteen - 1996

Bar-S celebrated its 15th Anniversary by recording one of the finest years since the Company's inception. Income before taxes was $13.2 million, a 144% increase over 1995. Improved profitability was widespread, with the largest gains at Clinton and the Altus Distribution Center, followed by the South Central, Export, Northeast, Southern California, and Rocky Mountain CSCs.

We generated record sales growth. Total sales volume was 278 million pounds, a 16% increase over 1995; primary product sales volume was 275 million, an 18% increase; and branded product sales volume was 264 million, a 20% increase. Frank sales volume led these increases with an unprecedented gain of 50%. Sausage and sliced luncheon meat sales were up 57% and 15% respectively. Ham and bacon sales were down by 22% and 16% respectively. However, ham sales margins increased 46%, generating considerably more gross margin dollars than the prior year. This reflected the strategic shift in our ham program toward everyday "value-added" business versus low-margin seasonal commodity business. Bacon sales declined due to lower consumer demand caused by significantly higher raw material costs, coupled with production limitations due to start-up problems at Altus.

Export sales were up 152% and now represented 22% of our total sales volume. Eastern Region sales were up 22% and Central Region sales up 10%. Account distribution also expanded markedly, with net authorizations up 18%.

We reorganized our sales structure by combining the Foodservice/Service Deli Division with the Retail Division into a single sales organization headed by John Sirridge, Vice President Sales Division. Each geographic Sales Region now had responsibility for all market segments. The product line was streamlined by reducing the number of UPCs from 396 to 317. The number of customers processing transactions via EDI (Electronic Data Interchange) increased to 38 customers, up from 10 the prior year.



Altus Expansion Opens

The foundation of our operations and distribution functions was further strengthened as follows:

- After 74 years of continuous operation, the Denver facility was closed and replaced with a modern bacon facility constructed as an expansion to the Altus plant. The new Altus bacon operation would eventually be able to produce about 2 million pounds of bacon per week -- about double the capacity of Denver. This completed the strategic action step of shifting all operations and distribution facilities to Oklahoma.

• Frank production capacity at Altus was doubled with the addition of a new line.

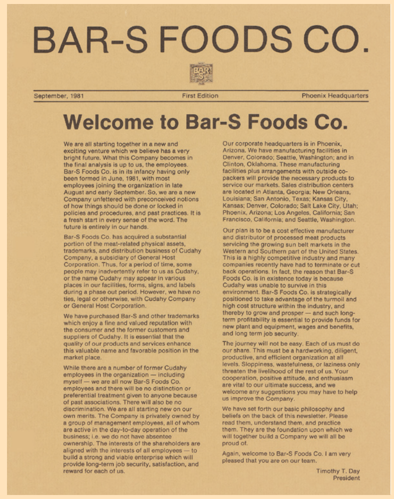
• Our hourly wage system was revised and improved with a unique Pay For Knowledge/Skill Plan.

• Local sales tax initiatives were passed that would help fund a new distribution and service center in Elk City, Oklahoma, and a major new frank and sausage production facility in Lawton, Oklahoma. These facilities would be completed by early 1998.

The start-up of Altus bacon production proved to be a disaster. We experienced difficulty in training and retaining qualified personnel in key skilled positions, with employee turnover running about 54%. This hurt our productivity and yields, and had a substantial impact on the Altus results. Some progress was made, but it would be a very long time before productivity reached the level of the closed Denver operation. ❖

The Bar-S Newsletter

The Winning Way newsletter, published by the Marketing Department, is a powerful communications vehicle for our Company. This newsletter is circulated quarterly to Bar-S employees, customers, key suppliers, business associates, and a number of other friends of Bar-S. Over the years, it has evolved into an informative, high-quality publication that presents our Company and activities in a most positive manner.


BAR-S FOODS CO.

September, 1981 First Edition Phoenix Headquarters

Welcome to Bar-S Foods Co.

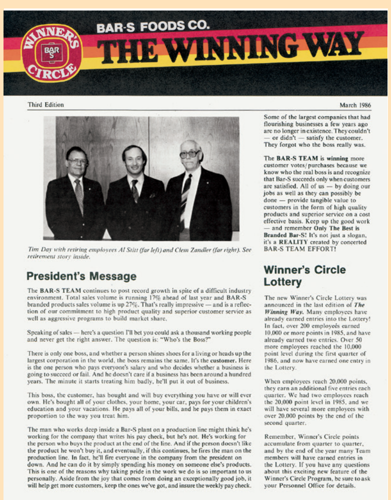
The first Bar-S Foods Co. newsletter was published when Bar-S was founded, in September 1981. It was a four-page, one-color publication that introduced readers to the new Company.


BAR-S FOODS CO. SIGNPOST

December, 1981 Second Edition Phoenix Headquarters

Company Announces New Profit Sharing and Savings Plan

The second newsletter was published in December 1981. The newsletter now had a name. It would be called the Bar-S Foods Co. "Signpost" for the next four years.


BAR-S FOODS CO. THE WINNING WAY

Third Edition March 1986

President's Message

Winner's Circle Lottery

Early in 1985 the name of the Bar-S newsletter was changed to "The Winning Way." A colorful pre-printed masthead was added, although the body of the publication was still black-and-white.


THE WINNING WAY

A publication of Bar-S Foods Co.

Twentieth Edition, Spring 1991

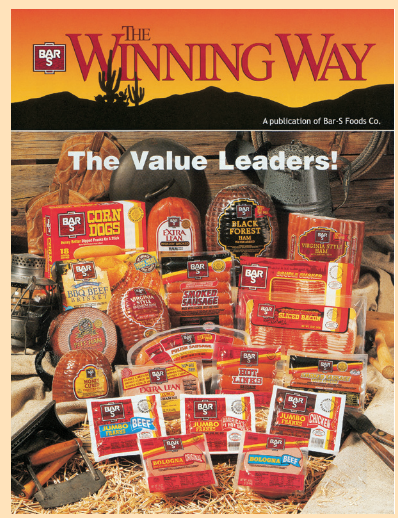
Bar-S Wins Corporate Wellness Award

In This Issue

President's Message

Fit To Win Is Just That. . .Winning

During 1991 a new, more colorful masthead appeared, and the copy pages featured a second color, Bar-S maroon. The newsletter had now grown to sixteen pages.



In the spring of 1997, The Winning Way featured a full-color front and back cover for the first time. A year later in 1998, we began publishing the whole newsletter in full color.

Phase V
National Expansion
Five Year Duration

During this phase, the Company would pursue very aggressive growth programs to achieve significant market share on a national and international basis, and to firmly establish Bar-S as "THE VALUE LEADER" in the packaged meat industry. Further, we would build two world-class facilities -- a second high-speed production plant, as well as a high-cube, automated distribution and logistical support center.

Year Sixteen - 1997

Year Sixteen was an outstanding year for Bar-S, with record performance in many areas: record profitability, record sales, record production, record financial strength, and record stock value. Moreover, we started the largest facility expansion in our history.

Income before taxes reached $17 million -- a 29% increase over 1996. Improvement in profitability was primarily due to the outstanding performance of the Operations Division, followed by the Western Region and then our International Region.

Total sales volume reached a record 319 million pounds -- up 13% over the prior year. Branded sales volume grew by 14% and now represented 97% of our total sales. Frank sales of 172 million pounds led all product categories, with a 25% increase over last year. Sausage sales increased 21% and sliced luncheon meat sales increased 6%.

All Regions reported sales increases, and the Eastern Region led the way with 39% overall growth. Export sales grew an impressive 18.5 million pounds, a 30% increase over the prior year, and now represented 25% of our total sales. Warren Panico joined the Company as Vice President, International Sales Division.

All production departments operated near capacity except for the Altus bacon operation, which only functioned at 57% of capacity. Poor bacon production decreased our overall labor productivity to 88% from 94% the previous year, and high employee turnover at Altus negatively impacted our safety record.

Record Profits

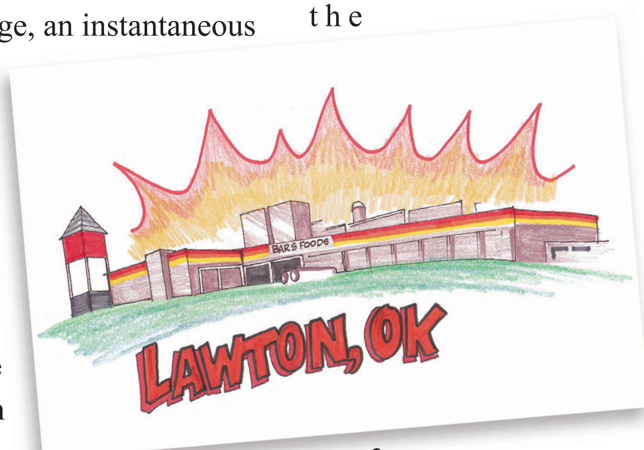
We planned and started construction on two new facilities during the year. The Lawton, Oklahoma, facility would be an 85,000-square-foot state-of-the-art production plant and was scheduled to open in early 1998, adding about 2.8 million pounds per week capacity. The Elk City facility was scheduled for completion in late 1997, with distribution activities starting early in 1998. This 145,000-square-foot facility would employ the latest technology and provide greatly expanded storage space and distribution capabilities, as well as central services for laundry, maintenance, and dry storage.

With the participation of a broad cross-section of our employees, we developed a Strategic Plan for the future of Bar-S called "Vision 2001." Our Vision was to become the recognized Premier Company and the clear Value Leader in the packaged meat industry on a national and international basis. We expected to produce a 15% average annual growth in total sales by protecting and continuing to dominate the markets in the Western Region, by rapidly expanding market penetration of core products in the Central and Eastern Regions, and by exploiting profit opportunities in select foreign markets. ❖

Year Seventeen - 1998

Year Seventeen was a year of great change for our Company. Our plan was to make a Quantum Leap in 1998 -- an abrupt change, an instantaneous huge step forward. We did accomplish a great deal: a dramatic increase in our production capacity, a doubling of our distribution facilities, exciting new products, and major increases in our domestic sales and nationwide distribution. However, given the high expense levels associated with this expansion program, the collapse of the Russian market, and to a lesser degree a disruptive union organization attempt at Altus, we were unable to achieve our profit goals. Some of the key accomplishments were:

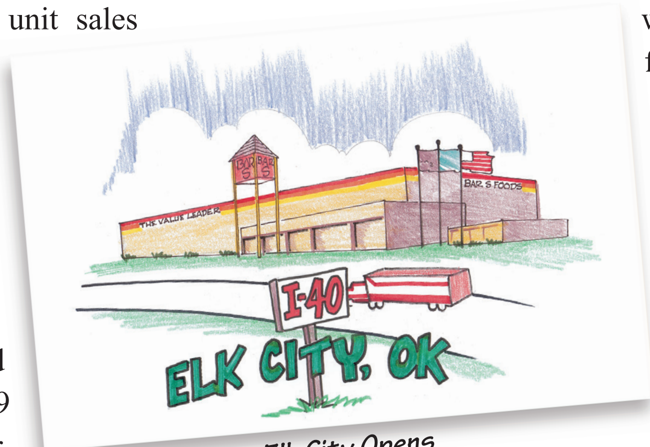
- Successfully opening the Lawton plant, nearly doubling our frank and smoked sausage capacity.
- Successfully opening the Elk City Distribution Center, greatly expanding our distribution capacity.
- Enhancing and strengthening the Company's senior management by creating a separate office of the President and Chief Operating Officer, and the designation of Division Vice Presidents.
- Significantly growing our domestic business and expanding distribution into a number of major accounts.
- Maintaining our financial strength with little debt, despite record capital spending.



Lawton Opens

Income before taxes was $11.4 million, a $5.5 million decrease from the prior year. While the U.S. Sales Division profitability improved by $700,000, the International Sales Division results decreased $2.3 million to a loss of $700,000. This loss was due to an economic collapse in Russia, which resulted in significantly lower sales and the need to establish a reserve for possible inventory losses. The decline in sales to Russia also adversely affected our Operations Division, which reported a profit of $8.6 million compared to the record $16.1 million the prior year. In addition, Operations Division profitability was affected by start-up losses at Lawton.

Total sales volume was down slightly at 312 million pounds. Domestic sales volume was up 30 million pounds, or 13%, to 263 million pounds, with increases in all major categories. Ham sales grew an impressive 40%, bacon was up 19%, sliced luncheon meat up 17%, and franks up 10%. Primary and branded product sales both increased 13%. The Western and Central Regions met or exceeded their sales objectives, with growth of 10% and 20% respectively. The Eastern Region grew 12%, but below expectations. Total unit sales margins improved 4% -- from 12.3 cents to 12.8 cents per pound -- due primarily to increased higher-margin domestic sales in relation to lower margin international sales. Bacon margins decreased from 15.2 cents to 10.9 cents per pound due to market conditions and our push for higher sales volume.



Elk City Opens

During the year, we expanded the Jumbo Frank line with the addition of Jumbo Ranch, Jumbo Lean, and Jumbo Tasty Franks. Along with the Jumbo Original and Jumbo Beef, these new products were well received by our customers. This line not only gave consumers a choice of great flavors, but also presented a bright, attractive billboard effect in the retail case. The Jumbo Original Frank continued to make great sales gains, and the 52-week ACNielsen report purchased in October listed it as the #1 selling frank in the U.S. This commanding sales position provided us with a platform for continued sales growth across the entire product line -- and it clearly represented an historic achievement for our Company, and a tribute to a professional and effective Bar-S sales force.

International Division sales decreased by 32 million pounds, or 41%, to 47 million pounds due to the Russian economic problems, and it now became clear that the Russian market instability would continue for the foreseeable future. To counter these unexpected geopolitical problems, we intended to diversify our exposure in international markets with more emphasis in the future on reasonably stable and prosperous countries. During 1998, we conducted extensive research and prepared a Strategic International Plan; studied and improved our international distribution channels to reduce costs; and negotiated new distribution contracts that would improve non-Russian sales. These efforts started bearing fruit during the year with a 53% increase in sales to Japan, increased sales to former Soviet countries, placement of 13 new items in Mexico, and new distribution in the Philippines and Hong Kong.

Capital expenditures totaled $36 million for the year, which was the largest in our Company's history. Construction of Lawton was completed during the second quarter, and production started in March. Start-up problems, along with unexpected expenses and operating costs, were experienced. However, by year-end, this state-of-the-art facility was running smoothly and ready for rapid growth and high-volume production. The addition of Lawton increased our total production capacity to about 9 million pounds per week. The Elk City Distribution Center was completed on schedule and commenced distribution activities early in 1998. The transition from the Altus warehouse to Elk City went very smoothly. Not only did we set new records for customer service levels, but we improved warehouse efficiency as well. Weight shipped as ordered increased from 99.1% to 99.4%, and orders filled as ordered increased from 89.1% to 92.8%, both new records. Warehouse productivity set a new record of 3,105 pounds per labor hour, compared to 2,925 the prior year. Although progress was slow at Altus, there were some improvements in bacon productivity, and bacon production totaled 43 million pounds, an increase of 14 million pounds over the previous year. In addition, yield and labor variances increased $600,000, and overall bacon results improved by $1.6 million. At Clinton, new sliced luncheon meat equipment was added.

The increase in production capacity, combined with the loss of Russian sales, resulted in our plants operating at only 71% of capacity compared to 91% the previous year. While this was painful financially, it forced us to take a very aggressive position in domestic sales, and we started focusing intense efforts on attacking select markets in an attempt to achieve major gains in market share.

During the year, we successfully defeated a major union organization effort at Altus -- and were pleased with the overwhelming employee support as evidenced by a 70% vote in favor of the Company.

Bar-S was reorganized to strengthen management capabilities, to provide recognition of increased responsibilities, and to prepare for future organizational requirements. The Officers of the Company following the reorganization were:

CORPORATE OFFICERS

Timothy T. Day
Chairman and Chief Executive Officer

Robert W. Uhl
President and Chief Operating Officer

John B. Sirridge
Sr. Vice President, U.S. Sales Group

Kenneth J. Stinn
Sr. Vice President, Operations Group

James S. Kuykendall
Vice President, Controller and
Chief Information Officer

Warren J. Panico
Vice President, International Sales Division

Joseph E. Stewart
Vice President, Marketing

Thomas F. Weinman
Vice President, Administration and Secretary

James C. Kline
Treasurer and Assistant Secretary

The reorganization also elevated the managers of the four facilities in the Operations Group, and the three Sales Divisions in the U.S. Sales Group, to Division Vice President. ❖

Clinton Plant

Altus Plant

Lawton Plant

Elk City Distribution & Service Center

Year Eighteen - 1999

Our Company made great progress during fiscal year 1999. Even though profit declined, annual sales reached $306 million. We set a record in domestic volume growth and effectively dealt with difficult industry and economic problems. The year began with a drastic reduction in export sales due to the continuing economic collapse in Russia. This decline in export sales resulted in excess production capacity along with excessive overhead expenses. To counter this problem, we implemented an intensive domestic sales campaign to utilize our excess capacity and keep our employees working. "Go For Gold" was the most aggressive sales promotion in our Company's history, and the campaign was a great success. During the year, we achieved many breakthroughs in existing and new accounts, but most importantly, we solidified the Bar-S Jumbo Original Frank as America's Number One Hot Dog!

Income before taxes was $8.4 million, compared to $11.4 million in 1998. Most of the shortfall occurred in the Operations Group, with income declining from $8.6 million in 1998 to $3.4 million. This was mainly due to continued poor results at Altus, which reported a loss of $4.4 million compared to a profit of $4.2 million in 1998. Because of the decline in Russian frank sales and the addition of the Lawton plant, Altus frank production operated only one shift.

Even with the impact of Russia, total sales volume for the year was up 10%, and domestic sales volume was up an impressive 17%. Frank sales led the way, scoring an outstanding 30% increase! This growth was even more profound given the disruption in the U.S. frank market due to industry food safety recalls. In fact, ACNielsen data showed that total U.S. frank consumption actually declined by 3.3% during the year. To recognize the success and position of our Jumbo Original Frank, the package was redesigned with a banner prominently displaying "America's #1 Hot Dog." Other product categories also reflected significant sales gains: bacon was up 9%, sliced luncheon meat up 12%, and sausage up a dramatic 16%. These strong sales gains set the stage for further growth in fiscal year 2000.

Bar-S Is Number One!

The U.S. Sales Group under John Sirridge was reorganized into 3 geographic Divisions -- Western, Central, and Eastern -- which were further divided into 10 Regions covering the United States. U.S. sales grew significantly in all geographic areas except Military. Further, the national market share of Bar-S branded products was #2 in franks, #2 in bacon, #3 in sliced luncheon meats, and #5 in smoked sausage -- a very impressive showing that established Bar-S as the second-largest brand in the packaged meat industry!

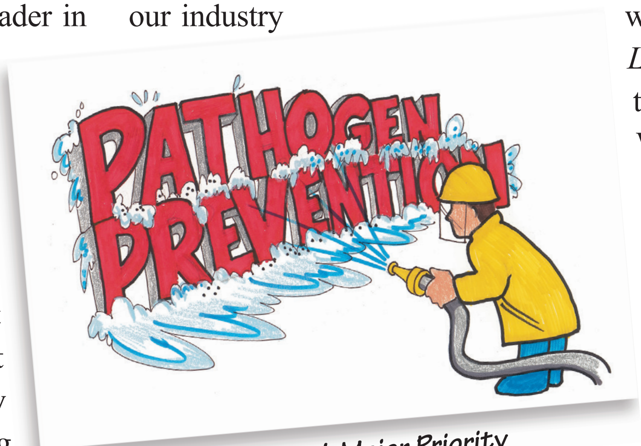
International sales were down 37%, due to a 19-million-pound decline in Russian sales. The long-term strategy continued to be to diversify our exposure in foreign markets and minimize the impact of any one country. Product authorizations were obtained in a major chain in Canada, as well as three major accounts in Mexico. In addition, markets in Japan, former Soviet Union countries, Singapore, Korea and the Middle East were further developed.

Our solid financial position continued to strengthen. Although capital expenditures were about $7 million, over $9 million of long-term debt was paid down. Even with impressive sales growth, our plants operated at only 67% of capacity, and our overhead expenses remained high on a unit basis. During the year, emphasis was placed on cost control and reducing overhead expenses. Cost-saving opportunities totaling $2.5 million were identified. Maintaining our position as The Value Leader in our industry necessitated even further reduction of overhead expenses while continuing to expand sales.

Although Altus and Lawton had excess production capacity, available capacity at Clinton tightened. The plant operated at 85% of capacity for the year; however, during the fourth quarter a sudden increase in demand for sliced cooked ham resulted in order shortages and decreased service levels. In addition, boneless ham production was at full capacity in late 1999. We intended to improve the production layout at Clinton during the first half of fiscal 2000 and add more high-speed equipment. While this would help alleviate short-term capacity problems, the long-term solution would require increased reliance on co-packers and ultimately new or expanded facilities.

During the year, efforts to improve productivity and reduce turnover continued. Hourly employee turnover decreased for the second year in a row, to a 37% annual rate. Our Team Safety program resulted in an improved safety record, which continued to beat industry averages.

This year marked the implementation of the USDA's Hazard Analysis and Critical Control Points (HACCP) program for the industry and our Company. Bar-S had been working on HACCP compliance for several years and was fully ready for the new regulations. However, we did not anticipate the intensity of the USDA pathogen sampling program, which was probably influenced by *Listeria* recalls in the industry during December 1998. When the USDA took a sample, our policy was to retain the entire production lot of the product and not release it for shipment until the sample results proved negative -- which generally took the USDA six to eight days. This process was extremely disruptive to our distribution system and materially affected our service levels to customers. Orders filled as ordered dropped to 87.8% compared to 92.8% the previous year.



Food Safety A Major Priority

Food safety was a major priority for our Company during the year. We moved steadily toward the forefront of the industry on this issue by developing and implementing extensive systems, procedures, and techniques to ensure safe products. We formed a

Pathogen Prevention Team comprised of key employees, sanitation experts, and a leading university professor to formulate and implement a comprehensive pathogen prevention plan with the ultimate goal of eliminating the possible presence of *Listeria monocytogenes* and other pathogens in our facilities.

Our focus on quality continued to pay dividends. Consumer complaints declined from 4.9 to 4.0 complaints per million pounds of U.S. sales. Process Improvement Teams (PITs) continued to expand and impact the organization. During the year, PITs implemented 1,108 process improvements compared to 609 in 1998 -- of which a record 297 were considered significant.

Fiscal 1999 was indeed a challenging year. We overcame many hurdles and made enormous progress in the marketplace. We developed great momentum that helped us drive even closer to becoming the PREMIER COMPANY IN THE PACKAGED MEAT INDUSTRY as we entered 2000. ❖

Year Nineteen - 2000

Year Nineteen began very slowly, but we completed the year with record sales, record production and near-record profits. Income before taxes was $15 million, 79% better than our previous year and right on plan. The Operations Group was the greatest contributor to the profit gain. Our Altus plant had a phenomenal turnaround, and operating results at the Lawton plant were also greatly improved.

Total sales volume for the year was 385 million pounds, up 12% over 1999, with branded products up 8% and core products up 10%. Frank sales led the way with a 22% increase reaching almost 200 million pounds. Sausage sales were up 17% and luncheon meat up 6%. U.S. Sales Group volume increased 7% to 327 million pounds, a very strong performance considering the highly competitive environment in which we operated. The International and HRI Sales Group volume was up an impressive 37%. International distribution improved in Hong Kong, Mexico, Singapore, Russia, South America,

Central America, Korea, Japan, Puerto Rico, Canada and Bulgaria. HRI realized expanded distribution in a number of national restaurant chains and industrial accounts.

Our Bar-S brand continued to gain strength and U.S. ACNielsen scan data purchased late in our fiscal year showed the following:

Record Sales Volume

• **Hot Dogs** - The Bar-S brand was the second-largest-selling national hot dog brand and close to overtaking the number one brand. The Bar-S Original Frank was the top-selling U.S. hot dog in both the one-pound and twelve-ounce sizes.

• **Dinner Sausage** - All four of our three-pound Skinless Smoked Sausage varieties -- Regular, Polish, Hot Cajun and Sausage with Cheese -- outsold competition's like varieties.

New Five-Year Plan

• **Luncheon Meat** - The Bar-S brand was the number two national luncheon meat brand. Bar-S Extra Lean 4”x6” Sliced Cooked Ham was number one in both the one-pound and two-pound sizes. Bar-S Bologna was number two in the one-pound size.

• **Bacon** - The Bar-S brand ranked number three among national bacon brands. Bar-S 12-oz. Bacon was the second-best-selling 12-oz. bacon, and Bar-S one-pound was the third-best-selling one-pound size.

It was obvious that our brand was rapidly gaining strength and becoming a force to be reckoned with in the domestic marketplace.

During the year, plant capacity utilization improved from 67% to 75%, yet capacity for near-term growth still remained in all categories except luncheon meat. Plans to address this luncheon meat capacity issue were initiated. A major remodeling and realignment project was completed at our Clinton plant, although the work was quite disruptive to operations during the year.

Plant safety continued to be a concern, since accident incident and severity rates were at an unacceptable level. We made several changes to our safety programs, including greater empowerment for safety teams, new safety incentives, and expanded training. These changes began to show results, and prospects for an improved safety record in 2001 appeared good.

We started the implementation of an improved Product Management System. The new system included better booking and sales forecasting procedures, both aimed at developing more accurate production planning. The ultimate objective of this entire effort was improved customer service -- providing customers with exactly what they need, when they need it. Our performance in this area during the year was mixed. Weight filled as ordered improved from 98.7% to 98.9%; however, orders filled as ordered fell from 87.8% to 86.7%.

During the year, Quality First underwent major changes aimed at reducing the complexity of the process while focusing on results. We reorganized the Team Process and restructured the Opportunity For Improvement (OFI) process with more emphasis on quality versus quantity. We also expanded recognition and rewards for significant projects.

The objective that was perhaps uppermost in our minds during fiscal 2000 was food safety, and we made great strides in improving our capabilities. Most of the plant sanitary design changes were completed, and all employees were trained in our newly published, English/Spanish bilingual safety manual. Research into new processes continued, and we began testing new ingredients in some of our products that were designed to improve food safety and increase shelf life. Plans were completed for our own laboratory in Elk City. This new lab was scheduled to be operational in mid-2001 and would allow us to do our own pathogen testing and obtain results in a much shorter period of time.

Our year was both exciting and rewarding. It will be remembered as a fine performance capped off with a superior finish. We moved into 2001 with great momentum. ❖


BAR S
SLICED BACON
Lower Sodium
SLICED BACON
THICK SLICED
DOUBLE SMOKED
SLICED BACON
DOUBLE SMOKED
SLICED BACON


BAR S
BOLOGNA CHICKEN
BOLOGNA THICK SLICED
BOLOGNA BEEF
BOLOGNA ORIGINAL
BOLOGNA GARLIC
One Pound


POLSKA KIELBASA
SMOKED SAUSAGE


POLISH SAUSAGE
HOT CAJUN STYLE SMOKED SAUSAGE
SMOKED SAUSAGE
SMOKED SAUSAGE WITH CHEESE
HOT CAJUN STYLE SMOKED SAUSAGE
SMOKED SAUSAGE


BAR S
96% FAT FREE
EXTRA LEAN
HONEY CURED
COOKED HAM
EXTRA LEAN
TURKEY HAM
98% FAT FREE
EXTRA LEAN
OVEN ROASTED
TURKEY BREAST
EXTRA LEAN
COOKED HAM


BAR S
CORN DOGS
Honey Batter Dipped Franks On A Stick
CORN DOGS
MICROWAVEABLE

Twentieth Anniversary - 2001

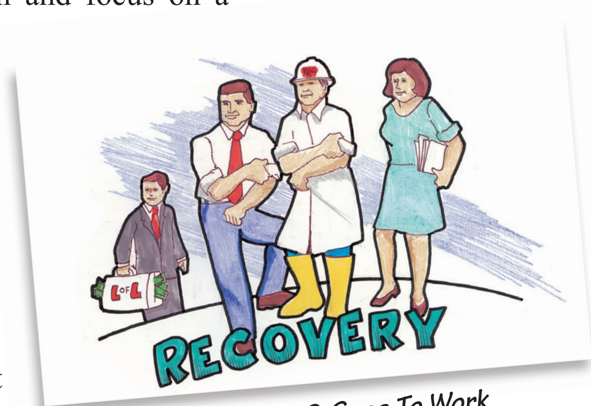
We began 2001, our 20th anniversary year, anticipating record sales and profits. Until mid-year it looked as though our expectations were well within reach. However, on March 19, 2001, our Company was struck by a traumatic event. Product produced at our Clinton plant tested positive for *Listeria monocytogenes*, which led to the temporary shutdown of the facility and a major product recall. While we strongly believed that the vast majority of the products produced at this plant were safe, we were not able to convince the USDA that there was no public health risk. Therefore, in the interest of safety, all production from the plant that had remaining code date life was recalled. Over three million pounds of product was recovered and destroyed, or destroyed at store level. There were no reported illnesses, which probably confirms our belief that the products were safe. While we understood the potential food safety risk associated with *Listeria,* and had preventative programs and crisis management plans in place, we never thought this kind of problem could happen to us. The impact was devastating and had wide-ranging implications; however, our Company is undoubtedly stronger, wiser, and more effective having undergone this trauma.

Net income for the year was $13.1 million, compared to $14.9 million in 2000. It is important to note that this income reflects "product contamination and recall" insurance proceeds of $24.9 million. Without the insurance proceeds, we would have incurred a loss of $11.8 million. Sales volume, which was seriously impacted by the recall, declined 5% from 385.2 million pounds to 367.6 million pounds. Virtually all product lines produced at Clinton were affected, with smoked ham sales volume suffering the most, decreasing 43%. Sliced bacon and most items in the frank product category were not directly affected by the recall, but were negatively impacted by disrupted distribution and confusion in the marketplace. Sliced bacon sales increased 5% over last year and frank sales increased 3%. Western Division sales decreased 3%, Central Division sales decreased 7%, and Eastern Division sales increased 2%. International and HRI sales were down 12%.

Massive Product Recall

The Operations Group was severely impacted by the product recall and the three-month closure of the Clinton plant. In total, the plants operated at only 68% of capacity, with Clinton operating at only 50% after reopening in July. While Clinton was closed, we completed a major renovation of the facility, including new air handling systems; separation of production areas; replacing or resurfacing floors, walls, and ceilings; installing ultraviolet lights; and other pathogen prevention measures. A state-of-the-art microbiological laboratory was opened in Elk City. Many food safety improvements were also made at the Altus and Lawton plants, and all of our products were reformulated to include pathogen inhibitors. At the time, we were the only meat processor in the United States with an inhibitor in all products. These inhibitors are expensive, but they ensure that, should there somehow be pathogens in a package, they will not likely grow to toxic levels. In order to simplify production and isolate HACCP categories, we permenantly discontinued smoked ham production, a reduction of 250,000 pounds per week. These changes reflected our continuing commitment to food safety. The closure, renovation, and difficult start-up caused major losses at Clinton, and a reduction of customer service levels due to order shortages and late deliveries. During the closure and start-up, we were forced to rely on co-packers who were not able to meet our rigorous quality and service standards.

This recall forced us to rethink all aspects of our business. Our conclusion was that we needed to streamline our organization and focus on a more limited product line. In late 2001, a major reorganization was implemented which reduced payroll costs by more than $2 million. We reduced the complexity of our management structure at the Corporate Office and at field locations. This reorganization included reducing the number of U.S. sales divisions from three to two, reducing the number of sales regions in each division, and establishing a National Accounts Division to more effectively service accounts that have central purchasing functions. The Bar-S product line was reduced from slightly over 300 items to about 130. By significantly reducing our operating costs, and streamlining the product line, we intended to make Bar-S a leaner and more effective organization.



Team Bar-S Goes To Work

Despite the heavy losses and additional expenditures at the Clinton plant, the Company remained in good financial condition. We ended 2001 with $19.4 million in cash, after borrowing $9.8 million for additional working capital. Our working capital was in good condition with a healthy ratio of 1.5; accounts receivable average days outstanding was 14.1 days; average days sales in inventory was 9.3 days; and total debt-to-equity ratio was 0.9.

As the 2002 fiscal year began, all indications were that sales and profits were headed back on track. The Company seemed to have weathered the storm, and our market share and financial position were still solid. The new organizational structure was fully implemented, our product line had been reduced to the most competitive items, and we had established one of the most aggressive pathogen detection and elimination programs in our industry. Our once smooth-running systems were slowly but surely recovering from the disruption caused by the recall. While it would take time to regain our full strength and effectiveness, we were confident that the united efforts of Team Bar-S would demonstrate our greatness and rapidly reestablish Bar-S Foods Co. as the Value Leader and Premier Company in this industry.

We concluded this difficult year thankful to all of our employees for their dedication and extra efforts; their perseverance in keeping our Company strong; and their resolve and determination to achieve excellence during 2002 and beyond. ❖

Phase VI
Building National Strength
Four Year Duration

Year Twenty-One - 2002

We completed our 21st year in business with record results. The primary focus of 2002 was to fully recover from the most disruptive event in our corporate history – the April 2001 recall and related operational and sales challenges. To emerge from this crisis as a more effective organization, we implemented many changes that included a significant downsizing of our organization, reorganizing our sales force, initiating new food safety programs, concentrating on waste elimination, executing a seven-day distribution schedule, centralizing accounting and maintenance functions, and successfully implementing several new information technology projects. The result was an extraordinary achievement of record performances and a quantum leap in operational and financial success.

Record-Setting Performance

Our most significant performance measure was a record $26.4 million net income – 101% better than last year, far above our plan, and 58% better than our previous best profit year. Leading this outstanding performance was the Operations Group as all locations far exceeded their profit goals. Elk City Distribution earned $8.0 million, the Altus Plant earned $7.4 million and the Lawton Plant produced a profit of $3.9 million. The Clinton Plant recorded a strong turnaround performance with a profit of $2.4 million versus a loss of $3.5 million in 2001. The Sales Group also set a record $4.5 million profit, with most Divisions exceeding their profit plans.

During the year, we realigned our sales organization to become more effective while allocating more sales resources to service National Accounts. We closed virtually all of our sales offices and consolidated all sales accounting and administration into Phoenix with significant cost savings. While these changes created disruption and stress during the year, they served to reinvigorate our Team and make us more focused, positive, and hard-charging. Moreover, they aligned our organization with the direction of the retail grocery industry. Sales per salesperson, one measure of sales efficiency, improved to a record 4.5 million pounds per year.

A major push was emphasized in 2002 to get "back to basics," so we streamlined our product line to include only high-volume, cost-competitive products. We reduced the number of products by almost 60% with no loss of sales. Total sales were 386 million pounds, exceeding our 2002 plan by

1%, and 5% over last year. Branded product sales were up 10% to a record 362 million pounds, reflecting our continued focus on building a strong national Bar-S brand. In fact, the Company's national market share, as reported by ACNielsen data, remains strong. Bar-S continues to be the second-largest-selling national hot dog brand, with our one-pound Jumbo Frank and twelve-ounce frank still being the best-selling franks in their categories. During the year, we expanded our frank line by adding a quarter-pound hot dog called Jumbo Jumbos. Bar-S is the number two lunchmeat brand, and some of our lunchmeat items underwent major packaging changes this year involving a resealable Zip-Pak design. ACNielsen also reported that Bar-S is the number three national bacon brand, and the number four national dinner sausage brand.

During this past year, consumer demand for Bar-S products strained our production capacity resulting in our plants working numerous seven-day weeks throughout the summer months. In addition, our capacity was reduced because of expanded food safety measures. On average, our plants operated at 93% of their five-day, two-shift capacity, and during the summer operated at well over 100%. This created a hardship for our plant employees and excessive wear and tear on production equipment and facilities. In 2003, we intend to install new high-speed production equipment and improve product flow as an initial step to increase capacity in all facilities.

In 2002, we continued our aggressive campaign on food safety and pathogen prevention. We installed UV lightening, ozonated water and air filtration systems; established local food safety teams; increased employee food safety training; and upgraded and retrofitted our smoke houses, brine chills and packaging equipment to increase their resistance to pathogen contamination. These efforts are showing promising results, as our food contact and environmental sampling reflects dramatic improvement in our fight against Listeria.

Customer service levels were excellent and the best in our history. Orders filled as ordered were 87.9%, weight shipped as ordered was 99.2%, on-time truck departures were 95.3%, and remaining shelf life on products at time of delivery was 86.1%. As further evidence of our quality improvements, customer complaints were at a record low of slightly over 3 complaints per million pounds sold.

The Company's financial position is very strong with cash and marketable securities at a record $54 million.

We owe much gratitude to all members of the Bar-S Team whose dedicated service produced this superior performance in 2002. It is another extraordinary chapter in the Company's history and cause for CELEBRATING OUR HERITAGE. Forged in adversity, our legacy is one of perseverance and success. ❖

Year Twenty-Two - 2003

We completed our 22nd year with strong performance in many areas. While overall profitability remained strong with a net income of $25 million, it was down from the previous year and below expectations. Although we faced many market challenges and unfavorable industry conditions, we made significant improvements in productivity, set records for customer service, and further improved food safety and pathogen prevention.

Total sales volume was 383 million pounds, down 1%, or about 3 million pounds from the prior year. The loss of approximately 29 million pounds of business at two major accounts - one of which went bankrupt and the other reverted to a private label format - caused the decline. On the other hand, branded product sales reached an all-time record of 368 million pounds, up about 1%. Sales of our 36 Core Products increased to 76% of total sales from 74% in 2002, reflecting our continued concentration on those products that have a large market potential and that we can make most efficiently.

Good Market Gains In The East

The Company's national market share, as reported by ACNielsen, slipped slightly from a year ago; however, our Bar-S sixteen-ounce Jumbo franks and our Bar-S twelve-ounce franks were still the number one frank in their categories. Bar-S was the number two national frank brand, the number two national lunchmeat brand, the number four national dinner sausage brand, and the number five national bacon brand.

Operations exceeded last year's record performance with a profit of almost $23 million. Improved productivity contributed significantly to achieving strong results this year. The plants operated at 93% of their five-day capacity for the year, and during the last half of the year they produced at over 100% of their five-day capacity. To address capacity needs in 2003, we installed new, higher-speed packaging machines at the Lawton Plant, which increased frank capacity by 17%. Further, we installed a flow-through smokehouse at the Clinton Plant, which provided an additional 5 million pounds of smokehouse capacity. To distribute this increased volume, we also installed additional warehousing racks at Elk City that increased our warehouse storage capacity by 1.6 million pounds.

As demand for our products continues to grow, we are implementing plans to increase production capacity. The remaining batch smokehouses at the Clinton Plant will be replaced with flow-through smokehouses, which will improve both production capacity and food safety. We are also working on expanding our work shifts through modified plant clean-up procedures. Consideration will also be given to replacing the frank packaging equipment at the Altus Plant with the faster machines similar to those at the Lawton Plant. These steps should provide us with adequate capacity for the near future.

Plant productivity for the year was 101% of standard as compared to 97% for 2002. Employee turnover decreased by an impressive 63% from last year at the production and distribution facilities. We expect that turnover will continue to drop as a result of the improved hiring practices and training programs started during the year. Despite higher production and sales levels, customer service levels set new records. The Elk City Distribution Center filled 95.9% of orders exactly as ordered and shipped 99.8% of the weight as ordered. In addition, 96.9% of trucks departed on time.

We also achieved unprecedented records in food safety with only two positive food contact samples during 2003. Environmental testing was equally impressive, with only 0.42% of sample being positive. These results reflected the major emphasis placed on food safety over the last several years, resulting in food safety enhancements such as a building expansion at the Altus Plant that will allow a complete separation of employees who work in the ready-to-eat area from those who work with raw materials.

In summary, 2003 was a great year in many respects and further improved our already rock-solid financial position. And once again, our strong Team Bar-S faced and overcame many challenges. Given our experienced, professional, and responsive Team; our state-of-the-art facilities and equipment; and one of the greatest value brands in America; we believe that Bar-S is FIT FOR SUCCESS and positioned to deliver record performance in 2004 and beyond. We ended the year determined not to be deterred from our continuing pursuit of excellence, and to fulfill our destiny of becoming the premier company in the packaged meat industry. ❖

Year Twenty-Three - 2004

This year produced superior performance. Record sales were achieved with total volume of 427 million pounds, up 11% from the prior year, and branded volume of 399 million pounds, up 8%. Expansion in Eastern markets and National Accounts accounted for most of this growth. Most impressively, the Company reported record high profitability – net income before taxes was $30.4 million, a 15% improvement over our best previous performance and the best year in our history. In addition, our profitability was further enhanced by the collection of $9.4 million of litigation proceeds associated with insurance coverage for the 2001 recall. As a result, the Bar-S financial position is extraordinarily strong with over $50 million of free cash on its balance sheet at year-end. The common stock is valued at $44.02 per share.

Rapid sales growth helped reinforce Bar-S as a prominent national brand. ACNielsen reports that our sixteen-ounce jumbo franks and our twelve-ounce franks are still number one in their category, and all of our major product lines other than bacon grew faster than their category. Bar-S is the number two frank national brand, the number two lunch-meat national brand, the number four bacon national brand, and the number four dinner sausage national brand. Also, our corn dogs are already the number three national brand, reflecting their rapid market acceptance.

The plants operated at a record 96% of their five-day, two-shift capacity, and during the last half of the year they produced at over 102%. Operations realized a full year of increased production associated with several capital projects implemented last year - including new high-speed packaging machines at Lawton; the installation of two new ovens and improved refrigeration at Clinton; and higher throughput from the Lawton smoked sausage ovens. Increased production was further bolstered by less equipment downtime and an expansion of the work shifts during peak demand periods.

The Elk City Team continued its outstanding performance, shipping a record 4,223 pounds per labor hour, a 16% increase over last year and 10% better than our previous record. Our customer service was down slightly from the prior year, but nonetheless, excellent considering that for many weeks of the year we operated in excess of 100% of capacity. Weight filled as ordered was 99.5%; orders filled as ordered were 93.3%; and trucks departing on time was 95.9%.

Record Branded Sales Of 399 Million Pounds

We continue to enhance our comprehensive food safety program. In 2004 we replaced the Altus plant exterior walls with double-sided stainless steel walls, installed new curbing, and completed several floor resurfacing projects. At the Lawton plant, we replaced all of the drains in the peeler room with stainless steel drains and also completed several floor resurfacing projects. Maximum efforts are being made to foster a company-wide culture that keeps our facilities clean, sanitary, and pathogen-free.

In July, our Board of Directors approved a strategic initiative that was essential to meet the future demand for our products and to maintain our industry position as the Value Leader, and it is the major component of a record capital plan of more than $50 million for 2005. This initiative involves realignment and expansion of facilities which will increase our capacity to produce franks and sliced lunchmeat; allow us to produce corn dogs in house; and facilitate the production of deli-style, thin-sliced lunchmeat, a rapidly growing category with an attractive market potential. This realignment is a significant tangible step supporting our 2005 theme of BUILDING FOR OUR FUTURE.

As we reflect on the great accomplishments this past year, we are reminded of our commitment to be FIT FOR SUCCESS in 2004. The Bar-S Team faced and overcame many challenges, both personal and professional,, and re-committed itself to continuous improvement. Superior physical and mental fitness will lead to a distinct competitive advantage for our Company, making us more effective, more productive, and a tougher competitor in the marketplace.

Our record-setting performance has further enhanced the Company's rock-solid financial position, which ensures that we have the resources to forge a future of greatness! While all of us can feel very proud of our accomplishments in 2004, we know there are big and difficult hurdles in our path ahead. However, the Bar-S Team is "Fit For Success" and committed to "Building For Our Future," and overcoming large challenges is part of our heritage. We remain undaunted and will not be denied our destiny of becoming the Premier Company in the Packaged Meat Industry. ❖

Year Twenty-Four - 2005

This was a year dominated by change, yet record sales of over $400 million were achieved and income before taxes reached $28.4 million. This level of profitability produced a 7% return on sales, an impressive number by industry standards, especially considering the challenges faced in 2005 – higher raw material prices, escalating energy costs, and the disruptions caused by the strategic initiative that was substantially completed during 2005. The strategic initiative was the largest capital expenditure program in our history and aimed at lowering product costs and expanding capacity. Primarily impacting the Altus plant, the initiative included the outsourcing of all bacon production, increasing our sliced round lunchmeat production capacity, adding a corn dog production facility, increasing frank production capacity, and converting the Clinton sliced lunchmeat operation to produce thin-sliced lunchmeat.

The Sales Group reported significantly improved profitability due to increased sales volume, better sales force productivity, reduction in unprofitable accounts, and greater control of promotional spending. Total sales volume increased 1% with branded sales volume increasing 3% – but this compares a 52-week year with a 53-week year in 2004. Branded sales volume increased to 97% of total sales, and our 36 core products now represent 80% of total sales.

Our national market share rankings as reported by ACNielsen remained fairly constant, with most of our product lines performing better than their respective categories. Bar-S continued to be the number two national frank and lunchmeat brand. Although corn dog sales increased dramatically, and faster than the other major corn dog brands, we remained the number three national brand. Despite a 2% decline in the overall category, bacon sales increased 7%, which resulted in Bar-S bacon moving up from the number four national brand to number three. Bar-S dinner sausage slipped from the number four to the number five national brand.

The Operations Group profitability was below last year's record performance. The major factor affecting Operations was the Altus expansion and frank realignment, which negatively affected short-term profits – but significantly increased our production capacity and positioned the Company for long-term growth. By year end, our production capacity at all plants (on a five-day, two-shift operation) had increased by approximately 21% to over 9 million pounds per week.

Overall plant productivity was 107% of standard, down slightly from last year, primarily due to the Altus realignment and expansion. However, pounds produced per labor hour were up 5% to 154 pounds. The plants produced at 91% of their five-day, two-shift capacity, down from 96% last year – and much of our added capacity came on line late in the year. Productivity at Elk City continued to improve, shipping a record 4,247 pounds per labor hour. Also, our key measurements of customer service improved slightly from the prior year; weight filled as ordered was 99.6%, orders filled as ordered were 93.6%, but trucks departing on time decreased slightly to 96.4%.

Strategic Initiative Completed

Focused efforts on product quality and food safety resulted in improved pathogen sampling performance with a reduction in environmental samples testing positive from .36% to .20%; however there was a slight increase in food contact positive samples. Quality defects in our products also decreased.

Our financial position remained excellent. Despite the largest capital expenditure program in our history totaling $42 million, there was nearly $30 million in cash and investments and virtually no debt on the balance sheet at year-end.

Our theme in 2005 was BUILDING FOR OUR FUTURE, and we certainly took some giant steps in that direction. Everyone expected this to be a difficult and challenging year, but Team Bar-S prevailed and turned in a fine performance. Next year will be our 25th anniversary, and we fully expect to make it a record-breaking performance in every respect. Team Bar-S is fully committed to deliver real value to the marketplace and win the ongoing trust of our customers. Through leadership, hard work, and a focus on the basics, we will achieve our destiny of becoming the Premier Company in the Packaged Meat Industry! ❖

Phase VII Establishing The Value Leader Position

Four Year Duration

Year Twenty-Five - 2006

Our 25th year of operation was marked by outstanding performance in the face of some considerable challenges. Bob Uhl stepped down as President and assumed a semi- retired role as Vice Chairman focusing on strategic initiatives to help secure long-term sources of raw materials and to open potential new growth opportunities. Tim Day took over as Chief Operating Officer and promoted Linda Boodman and Warren Panico to Executive

Vice Presidents. Tim made it clear that they intended to use this change in leadership to stimulate, rejuvenate, reinvigorate, and inspire Team Bar-S to strive for a new level of performance - that we were moving out of our comfort zone and shifting into a higher gear.

Total sales for the year were a record $456 million, and we produced a profit before taxes of nearly $30.3 million. This profit performance was the second-best year in our history and reflects a 6.7% return on sales, which is excellent by industry standards. What also makes this profit performance particularly gratifying is that we had to overcome some difficult obstacles. First, it was necessary to force sales growth by about 10% just to cover the additional overhead associated with the major capital expansion program undertaken in 2005; second, we experienced significant disruptions and expenses related to the startup of our new bologna and corn dog operations; and finally, we were faced with significant escalating raw material and energy costs.

Sales Volume Reached All-Time Records With 12% Growth

Operations reported a profit of $17.2 million, down 22% from last year's performance. As noted above, this was largely due to additional costs associated with the dramatic increase in production capacity. Sales reported a profit of $5.0 million, up 36% over the prior year, led by major improvements in the Eastern and National Accounts Divisions.

Total sales volume increased 12% to a record 479 million pounds and branded sales volume increased 11% to 457 million pounds. The Eastern Division had a tremendous year with 16% sales growth, Western Division sales were up 4% compared to last year and the National Accounts Division sales increased 17%. All divisions performed very well in light of a very difficult competitive environment.

Our market position as reported by ACNielsen improved in most product categories and in many geographic markets, reflecting the superior sales performance for the year. Bar-S is now the number one national best-selling frank brand - and our one-pound jumbo franks and our twelve-ounce franks continue to be the leading product in their respective categories. Bar-S lunchmeats are still the number two national brand, and experienced 22% growth over last year in a category that fell 5%. Our new thin-sliced lunchmeat is rapidly climbing the rankings and is currently ranked 13th nationally. Although corn dog sales increased dramatically, and faster than the other major corn dog brands, we remained the number three national brand. Bacon and dinner sausage held steady as the number three and four national brand in their respective category.

Overall plant productivity was 103% of standard, down slightly from last year, primarily due to tighter labor standards. The plants produced at 85% of their five-day, two-shift capacity, down from the 91% utilization reported last year. This decrease in capacity utilization was entirely due to the major capacity added in the latter part of 2005. Productivity at Elk City continued to improve. We shipped 4,016 pounds per labor hour, a 4% improvement over last year.

Our manufacturing operations are now running very smoothly and efficiently, and during our peak season, we fully demonstrated the capability to produce large volumes of high-quality products on a cost-effective basis. Further, our distribution system was able to handle the substantial growth in our business while maintaining one of the best service records in the industry. Weight filled as ordered was 99.6%, orders filled as ordered were 93.1%, and 95.1% of the trucks departed on time. In 2007, substantial resources will be committed to expanding and automating our Altus corn dog operation, streamlining and modernizing our Clinton ham and sausage operations, increasing distribution capabilities, and planning for future frank production needs. These major projects will ensure that we have the physical capabilities to supply the growing demand for Bar-S products as we drive to become the Premier Company in the Packaged meat Industry.

Our financial position remains very strong with stockholders' equity of over $98 million and cash and investments of over $40 million. We continue to produce a strong return on equity at 33.1%.

It is only proper that we made our Silver Anniversary a very special year consistent with our long heritage of achieving excellence. Team Bar-S is on the move and we intend to DRIVE – ABOVE & BEYOND and reach for record-breaking performance in all aspects of our business in 2007. ❖

Year Twenty-Six - 2007

Year 2007 produced big performance gains with record sales of $484 million, a 7% increase over 2006, and record profits from operations of $34.3 million, a 13% improvement. Including net recall litigation proceeds, profits totaled $38.1 million. Our return on sales was 7.1%, which is very solid performance in our industry. By almost any measure, 2007 must be considered the best overall year in our Company's history.

Sales, Marketing & Promotions reported a profit of $13.8 million, which was a 32% improvement. Reviewing our sales volume performance, we sold over 500 million pounds of primary products, a 7% increase from year prior. Branded sales comprised 96% of total sales versus 95% in 2006, while sales of our 37 core products comprised 79% of total sales, up from last year. Our performance was mixed by branded product line. Our ham business was down 22%; bacon was down 4%; franks were up 6%; sliced lunchmeat was up an impressive 24%; 4x6 sliced lunchmeat was up 5%, skinless smoked sausage was up 11%; other sausage was up 14%; and corn dogs were up 8%. Looking at our sales from a geographic standpoint, the Western Division had an 8% increase; the Eastern Division had a 6% improvement; the National Accounts Division was up 7%; and International sales increased by 9% - so, we had a pretty strong and balanced overall performance.

Our market position as reported by ACNielsen remained relatively constant throughout 2007. Bar-S was still the national best-selling frank brand and our one-pound jumbo franks and our twelve-ounce franks continued to be the leading products in their respective categories. Bar-S lunchmeats were still the number two national brand, and we had strong growth in a category that fell 6%. Our one-pound bologna was the second-best-selling item and the fastest-growing among the top ten selling lunchmeat items, and we held five of the top ten rankings in the 4x6 lunchmeat category. Our new thin-sliced lunchmeat was growing steadily and was ranked 11th nationally. Corn dog sales grew faster than the other major corn dog brands; however, we remained the number three national brand. Dinner sausage held steady as the number four national brand, but bacon dropped from number three to number four.

Operations reported a profit of $15.9 million despite some significant disruptions as we totally renovated both the ham and the sausage kitchens at Clinton, doubled our corn dog production capacity at Altus, installed robotics in the Altus corn dog pack off, expanded our warehousing capacity at Elk City by about 25%, and started construction of a new freezer and deep chill warehouse in Altus. And remarkably, our distribution system was able to handle the substantial growth in our business while maintaining one of the best delivery service records in the industry.

The Altus plant turned in an outstanding performance with a profit of $8.3 million, an impressive increase from last year that was driven by major improvements to the corn dog and bologna operations. The Lawton plant reported a profit of $7.8 million, which was a slight increase over last year. The Clinton plant reported a loss primarily due to costs associated with the kitchen renovations, which included installation of state-of-the-art processing equipment. Elk City posted a profit that matched last year's results despite some very difficult raw material markets in 2007.

Overall plant productivity was 99% of standard,

In 2007 we conducted extensive consumer research on the value segment of the market as we prepared to a launch major sales campaign as **The Value Leader** down slightly from last year. Tighter labor standards for the frank operations at Altus and Lawton and the downtime at Clinton for the kitchen realignments caused the decrease. Output per labor hour, another measure of productivity, was 161 pounds per hour – 5% percent better than last year. The plants produced at 88% of their five-day, two-shift capacity. As mentioned above, our key measurements of customer service remained outstanding. Weight shipped as ordered was 99.5%, orders filled as ordered was 93.8%, and 95.4% of trucks departed on time.

The financial position of the Company was very strong, with stockholders equity at about $121 million and with cash reserves of almost $53 million. Our return on investment was 31.3%, down slightly from last year due to the large cash balances and increase in net worth.

Our theme for 2008 was MAXIMIZE OUR POTENTIAL, and there were many new initiatives underway to help us achieve “breakthrough performance” and make another quantum leap. We were confident that the coming year would prove to be a very exciting and challenging time in our history, and that Team Bar-S would once again demonstrate that we were the finest organization in the packaged meat industry! ❖

Year Twenty-Seven - 2008

Our 27th year of operation was not a record-setting year, but one of overcoming numerous challenges. Our great successes during the first half of the year probably led us to be somewhat complacent, and we did not respond rapidly enough to the general economic climate and competitive activities. While we did have many significant accomplishments during 2008, they were overshadowed by disappointing financial results. Total sales reached $491 million, an increase of 1.4% versus 2007; and net income totaled $32.1 million, down 6% from last year’s record profit. Our return on sales was 6.5%, down from 7.1% last year – but this is still a very respectable performance in our industry.

Sales, Marketing & Promotions reported a profit of $18.2 million, which was a 32% improvement over 2007. We sold 497 million pounds of primary products, a 3% decline from last year – but unit sales margins improved 1.4 cents to 12.1 cents per pound. Additionally, we sold 478 million pounds of branded products, down 2% from 2007. By branded product line: ham business was down 9%; bacon was down 5%; franks were down 5%; sliced lunchmeat was up 3%; 4x6 sliced lunchmeat was even with last year; skinless smoked sausage was up 5%; other sausage was up 5%; and corn dogs were down 5%.

As one might expect from our sales numbers, our market position as reported by AC Nielsen declined in a few categories and held fairly steady in others. Bacon held on to its position as the number four national brand. Our deli thin-sliced lunchmeat items fell to number fourteen. Our corn dogs and dinner sausage held their position as the number three and number four national brands, respec-


BIG BITE

And the Wiener Is...

We bit into dozens of hot dogs—these franks cut the mustard.

BY DOROTHY KRASOWSKA | PHOTOGRAPHY BY MONICA BUCK

BEST OVERALL

Bar-S Beef Franks

Tasters flipped for this all-beef hot dog. They raved about its "incredible juiciness" and "nice snap." The judges were also grabbed by its "perfect smoky-and-sweet combination," along with a "great saltiness." No wonder Bar-S was the best-selling bargain brand in America last year—as one taster said, "It's everything a hot dog should be." *($2.99 for 16 ounces, at grocery stores)*

rachaelraymag.com

EVERY DAY WITH RACHAEL RAY 39

Received Top Honors From Noted Food Expert Rachael Ray On Beef Franks

tively. Bar-S is still the best-selling national frank brand and our one-pound jumbo franks and twelve-ounce franks continue to be the leading products in their respective categories. Bar-S lunchmeats are still the number two national brand, and our one-pound bologna is the best-selling item in the lunchmeat category.

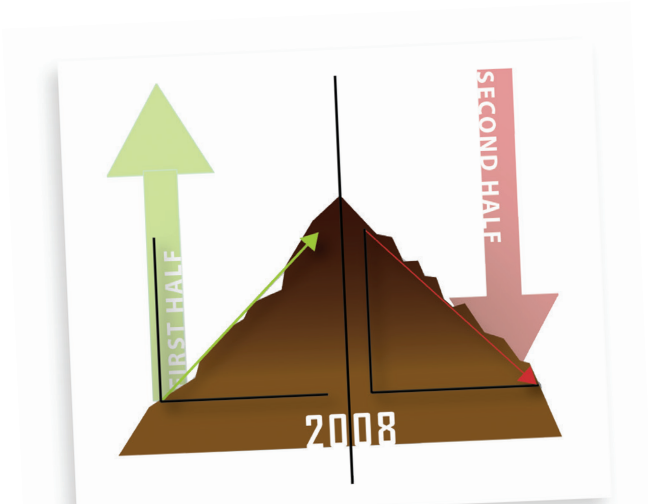
During the year, we implemented new packaging for the entire product line, and it caused more than anticipated consumer confusion in the marketplace. On the other hand, our sales team made significant progress in obtaining new distribution of products with many of our retail accounts, gained valuable experience with fact-based selling, and provided our customers with extensive category leadership information and insights. Finally, we dealt with the most volatile and difficult raw material market that seemed to have no upper limit - and we did a fairly good job of minimizing the potential negative consequences of this environment.

Operations reported a profit of $5.5 million, which is down from last year. The Altus Plant experienced a large decline, in part, due to the tornado damage and the loss of reserve inventories. The Altus facility also underwent a major robotics installation to automate the packing of corn dogs. Elk City results were negatively impacted by much lower margins related to higher raw material costs. On the other hand, the Clinton Plant and Lawton Plant showed improvement. Further, the Clinton facility underwent significant expansion to the cooking, chilling, and slicing operations. This expansion is expected to increase Clinton's total production capacity over 13% to about 500,000 pounds per day.

A positive highlight in 2008 was improved plant labor productivity. Output per labor hour increased slightly from 161 to 163 pounds per hour despite many operational challenges. Due primarily to the order shortages caused by the tornado, our key measurements of customer service decreased from last year with orders filled as ordered at 91.0% and weight shipped as ordered at 99.1% - still a very respectable shipping performance.

The financial position of the Company remains very strong, with stockholders' equity now at about

$133 million and with cash reserves of about $59 million. Our return on investment was 25.4% in 2008, down slightly from last year due to the large cash balances and increase in net worth.



Experienced "A Year Of Halves – Record First Half, Disappointing Second Half"

Looking ahead to 2009, "all hands" are fully focused on getting BACK ON TRACK. While it is going to be a very challenging year, we are a lot wiser and have many new initiatives underway to help us navigate through these treacherous times. There is real opportunity to solidify our position in the industry as the Value Leader and produce record performance. We always have found a way to bounce back from adversity. Throughout our illustrious history, Team Bar-S has been able to fire up that winning spirit and overcome all obstacles to success. There is no doubt we will once again demonstrate that this is the most action-oriented and effective organization in the packaged meat industry. ❖

Year Twenty-Eight - 2009

Our theme for 2009 was to get **BACK ON TRACK** and Team Bar-S delivered truly impressive results. During our 28th year in business, we achieved record levels on many key performance indicators. For example, compared with last year:

- Branded sales volume grew by 10%;
- Market share in most product categories improved;
- Profitability increased by 49%;
- Return On Sales climbed to 8.8%;
- EBITDA was up 36%;
- Cash and Marketable Securities grew by 64%;
- Total Assets increased by 14%; and
- Stockholders' Equity grew by 12%.

These results are particularly noteworthy because success required that we overcome two significant adverse factors - surviving the most serious economic crisis since the Great Depression and reversing the disappointing performance of the Company during the second half of 2008.

By "battening down the hatches" to prepare for the severe recessionary conditions sweeping across the country, we carefully examined all areas of expense, tightened down our cost structure and became a leaner organization - and this discipline served us well. And to regain lost momentum from 2008, we implemented aggressive sales and promotional programs to tie up the peak summer business coupled with improved packaging, new CDI promotion funds, and brand awareness efforts. This created much excitement in the marketplace. So by preparing for adversity with great care and intensity, we set ourselves up to deliver "peak performance under peak pressure" - and this ensured that we would achieve the primary goal of keeping our products selling, our plants operating, and our people employed. It also provided a solid foundation to strive for superior performance in many aspects of our business - which ultimately produced record financial results.

Increased Profitability By 49% - Best Performance In Company's History

Total sales volume for the fourth quarter was a record-breaking 142 million pounds - a 12% improvement over last year. Total annual sales volume was 538 million pounds and branded sales volume was 525 million pounds - both record levels and 8% and 10% above last year, respectively. And as one might expect, the combination of significant sales growth, higher unit margins, tighter cost structure, and improved efficiencies produced a record annual profit of almost $48 million - a 49% improvement over last year and a 39% increase over the previous best year.

Breaking down annual sales by branded product line: sliced bacon was up 7%; franks were up 16%; sliced lunch meat-sausage was up 8%; sliced lunch meat-ham/turkey was up 1%; skinless smoked sausage was down 5%; other sausage was flat; and corn dogs were down 2%. With this sales performance, the Company gained in national market share across multiple product categories. Bar-S Franks led the way in our market share growth with a 2.1 share point gain, going from a 15.8% to a 17.9% volume market share - this is a very significant change to achieve across the large U.S. market in a single year.

Our plants operated at a high level of efficiency in 2009. Production volume increased by 9% and plant overhead costs were down an impressive 4% from the prior year. Our product management and distribution team provided near record delivery service to our customers with Orders Filled Perfectly at 92.9%; Weight Filled as Ordered at 99.5%; and On Time Truck Departures at 96.6%. It's no wonder we receive so many compliments from our customers.

Over the years, we have built a fortress balance sheet that defends our financial security against adverse circumstances. The conservative policies that ensure we are prepared for the worst have the added benefit of providing the strength to aggressively pursue market expansion at a time when others are struggling to just stay afloat. We ended

Increased Profitability By 49% - Best Performance In Company's History

the year with record stockholders' equity of $148 million and almost no debt. Our Return on Equity for the year was a robust 35% - and excluding cash and marketable securities it reached 71%.

By getting BACK ON TRACK in full force in 2009 we firmly established our position as the Value Leader in the Packaged Meat Industry and outperformed the competition by a wide margin. Further, we demonstrated our potential for greatness by making a quantum leap forward in the important measurements of success related to our business. Team Bar-S has great positive momentum as we march into the new fiscal year, and our theme for 2010 is QUEST TO BE BEST! This message reminds us that we are on top of our game; that we can reach for even higher standards of performance; and that we are closing in on Our Vision of becoming the recognized Premier Company in the Packaged Meat Industry. That is Our Destiny - and with a united team effort, it is within our grasp! ❖

2010 - Phase VIII

Phase VIII
The Merger Of Leaders

Year Twenty-Nine - 2010

This year was the 29th and final year of operations for Bar-S Foods Co. as a privately owned company because on September 2, 2010, the Company merged with Sigma Alimentos, a subsidiary of the Alfa group of Mexico. The merger with Sigma Alimentos brought together two great organizations; the Value Leader in the U.S. Packaged Meat Industry and the packaged foods leader in Mexico with strong brand loyalty in the U.S. The new enterprise, called Bar-S Foods – A Sigma Company, is the North American market leader in packaged meats, and our joint strengths should enable us to achieve the next level of success.

Our theme for 2010 was **QUEST TO BE BEST!** This message reminded us to be on top of our game and to continue to reach for even higher standards of performance. The results for 2010 reflect the Company's performance only for eleven months due to the merger, so certain growth and sales com-

The Merger Of Leaders

parisons are made on a percent or per pound basis only to make them more meaningful. It should also be noted that the results for 2010 were impacted by many factors including the significant management distractions inherent in the process for preparing and executing a merger of this size.

Here are some of the highlights:

- **Total Sales Volume decreased 1% while branded Sales Volume grew a modest 1%**
- **Market share in most product categories was steady**
- **Return on Sales was a solid 8.4% while Return on Equity was a strong 31.7%**
- **Profitability was down 2.7% and EBITDA was down 1.5%**

Overall operating profit, before investment income, merger-related expenses, and income taxes, was $41.7 million, or 8.5 cents per pound, compared to $46.2 million or 8.6 cents per pound for the full year 2009. Including portfolio income, profits increased from 8.9 cents to 9.1 cents per pound.

Very high raw material markets adversely impacted sales volume and profitability – particularly in the bacon category. In addition, a Russian poultry trade restriction caused a 4.3 million pound decline in export sales volume. Excluding these export sales, domestic branded sales were up 1%. Breaking down sales by branded product line and comparing to the same eleven-month time period in 2009: sliced bacon was down 10%; franks were down 2%; sliced lunch meat-sausage was up 6%; sliced lunch meat-ham/poultry was down 13%; skinless smoked sausage was up 4%; other sausage was down 11%; and corn dog sales grew an impressive 21%.

Although sales profitability declined significantly, the plants operated well with improved productivity and yields, and profitability increased

The Bar-S Foods corporate logo

from $10.6 million in 2009 to $15.8 million. All three plants reported significant improvement.

A number of positive action steps were achieved in 2010. Distribution efficiencies improved for the third straight year, while customer service also approached record levels. SQF recertification was accomplished in all of our facilities, and consumer complaints (per million pounds of sales) decreased from 2.7 to 2.2 – a record low. In addition, we successfully started up our first MSC processing operation in Jackson, Mississippi, and implemented a bacon slicing joint venture with Cargill in its Ottumwa Plant.

General economic conditions remained very sluggish in 2010, so Value continued to be important to consumers - and this provided us a competitive advantage as the Value Leader. As we look to the future, the direction of the new combined enterprise will be to deliver high-quality products and services at the lowest possible cost. We recognize that the effective integration of these two organizations will consume much of our time in the coming year, but a new Bar-S Foods will emerge as a result of these efforts - well positioned for significant future growth and domination of the Hispanic market. ❖

Stub Year - 2010

September 2, 2010 – December 31, 2010

This was the first period reflecting the results of Bar-S Foods Co. and the Sigma Alimentos U.S. Operations as a combined enterprise. The new company called Bar-S Foods – A Sigma Company will convert to the calendar year as its fiscal year. This required a "Stub Year" to bridge the time period from September 2, 2010, to the start of the new calendar year.

The Stub Year is also significant because it was dominated by the Post Merger Integration (PMI) process. A great deal of time and energy was devoted to this 100-day PMI process involving 13 teams and about 70 employees from both organizations with the goal of determining how best to combine these two great companies. One of the most important challenges was to avoid causing major disruptions or business declines in either enterprise during this PMI process. And this was no small feat because a large portion of our "lean" management resources were diverted from their normal business operations to participate on PMI teams. Nevertheless, employees from both companies worked hard to start the process of determining how best to integrate two diverse businesses into a single organization and enterprise. The PMI process was very productive in that we learned how to work together as a team, acquired knowledge about the legacy organizations, determined best practices to adopt in the new company, formed a new organizational structure, and even introduced a new company logo, Mission, Pledge, and Commitments.

Despite the many distractions caused by the PMI process, the combined companies delivered respectable sales and profitability performance during the Stub Year as highlighted below:

- Total sales volume was 194.3 million pounds, down 1% from the same time period in the prior year.
- EBITDA was $18.5 million, down 4% from the same period in the previous year.
- EBITDA margin was 7.8%

Much of the sales decline was in bacon, ham, and turkey items as a result of very high raw material markets, which also reduced unit sales margins; and in export sales due to Russian trade restrictions. Pork belly prices reached an all-time record high during the year.

Nonetheless, most of our units performed quite well from a profit standpoint, and the overall decline was largely due to unexpected higher expenses at the Seminole Plant and the DSD Operations. These areas were addressed and we expect improvement in expense control in 2011.

The initial integration planning developed by the PMI process during the Stub Year helped lay the foundation for an all-out effort to create a fully integrated, single organization and operating business by the end of 2011. This is a very ambitious undertaking given the enormous complexities of totally integrating all accounting procedures, IT systems, management reports, HR functions, organization cultures, logistics, sales and marketing strategies, manufacturing processes, product management coordination as well as fundamental business concepts and management styles. However, once accomplished, the new Bar-S Foods will be a multi-brand; multi-product category; and multi-cultural enterprise – an organization that is stronger and more powerful and ready to assume the position as the Premier Company in the Packaged Foods Industry in North America. ❖

Year Thirty - 2011

This marked the first full year of operations as a combined enterprise, since the merger in 2010, and significant progress of becoming a single, stronger, and smooth functioning company was made. And despite how everyone was affected by the often uncomfortable and disruptive changes that are inherent in the integration process, – it was quickly realized that these changes were essential to capturing the full potential of the combined enterprise.

Implementing this integration while working towards achieving our sales and profit goals was an extraordinary challenge – particularly in an environment that has not been conducive to our planned

Altus Plant

Clinton Plant

Lawton Plant

sales and profit growth. The economic climate in 2011 was not favorable for the packaged foods industry, and persistently high unemployment and depressed consumer spending made sales growth difficult; but, our sales teams persevered and delivered a 4% increase in sales volume. The growth in total sales was supported by exceptional customer service provided by our distribution facilities -- particularly during our busy peak selling season in the summer. This performance exceeded Plan and resulted in improved national market share in several product categories. However, raw material prices for our core products continued to escalate during the year, which squeezed our profit margins.

The combined company delivered very impressive results despite the challenges faced with the integration and economic conditions with highlights as follows:

• Total sales volume was 670.3 million pounds, almost a 30 million pound improvement over prior year. Sales of Bar-S branded product grew 5%, and our FUD, La Chona and Longmont brands grew 3%.

• EBITDA was $74.5M – up $7.7M or 12% over prior year. Our Warehouse organization EBITDA improved by $10.2M or 17%, but this was partially off-set by a decrease in profitability of $2.5M associated with our DSD and Longmont business.

• EBITDA margin improved to 9.2% compared to 8.9% last year.

Most of the sales growth was in franks, frozen entrees, and sliced lunch meat sausage. Categories that declined were smoked sausage, bacon and ham/poultry products. Dairy volume was flat. Sales of our Longmont brand enjoyed a surge in market acceptance and increased 26%.

Substantial progress was accomplished on a number of projects relating to the post-merger integration:

• The alignment of virtually all of our Human Capital programs and policies was completed.

• Good progress was made in aligning the company's accounting and information

MCP Plant

Elk City Plant

Seminole Plant

systems, resulting in a smooth functioning and fully integrated financial reporting system, including the company-wide implementation of the profit center approach.

• A detailed study of our DSD network was completed and several initiatives to improve the efficiency of this distribution model were executed. Implementation of these initiatives will extend well into 2012, and this project will significantly improve the profitability of the DSD business.

• Significant changes were made at Seminole to improve plant efficiencies and reduce overhead costs. Detailed product cost information is now available that provides insight into operational issues that require attention. The plant made some strides toward achieving the consistent performance necessary for acceptable profitability.

• Good progress was achieved toward unifying product management, plant scheduling, and the transportation network which has been centralized in Elk City. The merger allowed the combined enterprise to more effectively balance production capacities, yielding more flexibility in production scheduling.

• Product spoilage losses have been reduced, and this initiative will pay future dividends in the form of tighter inventory levels and lower shipping costs.

• Finally, Bar-S Foods has a new Corporate Office where all employees are located on the same floor. 2011 was a year marked by accomplishment of the many planned integration objectives. And despite escalating prices of raw materials for many core products, the Company delivered impressive results – that is a testament to the dedication and effort of the entire Team Bar-S.

2012 brings extraordinary challenges in light of an expected 50 percent cost increase of our key raw material – Mechanically Separated Chicken (MSC). In addition, the cost of other key ingredients, packaging and supplies is also expected to increase. The total impact is expected to be at least $35 million to $38 million. However, the Company has dealt with difficult market cycles in the past and has great experience in overcoming adversity. More than ever, Value will be critically important to our consumers; therefore, it is essential that Bar-S Foods continues to deliver high-quality products and services at the lowest possible cost and fulfills a promise to be the Value Leader in the industry. ❖

Year Thirty-One - 2012

Results for 2012 are in and Team Bar-S delivered an impressive performance. Record profitability was achieved and the integration of the two formerly separate companies was completed. It is clear that the Company is now functioning as a single, strong enterprise with an outstanding future. The year was marked by many significant accomplishments:

• Virtually all of the Best Practices initiatives that commenced in 2011 were implemented, which were designed to improve efficiencies and reduce costs in our DSD distribution business. These initiatives delivered additional profit of over $6 million in 2012 and about $7.5 million to-date;

• A number of changes at the Seminole facility were implemented to improve productivity and reduce costs. The plant reported its first ever monthly net profit during 2012 and reported EBITDA of over $5 million – a nearly $7 million improvement from last year;

• The entire DSD business, including Seminole and MCP, reported its first full year under the profit center concept so all individual operating units throughout the organization are now reporting on that basis. This has provided more insight into our product costs and made our operations more transparent;

• Further progress was made in unifying our supply chain management activities, which contributed to a further reduction in our product spoilage losses. Annual spoilage losses have decreased by more than one-half -- from $3 million in 2010 to about $1.3 million in 2012;

• A joint business plan was successfully executed with our largest customer in the Warehouse business, resulting in a related increase of 10% in sales volume, or more than 15 million pounds;

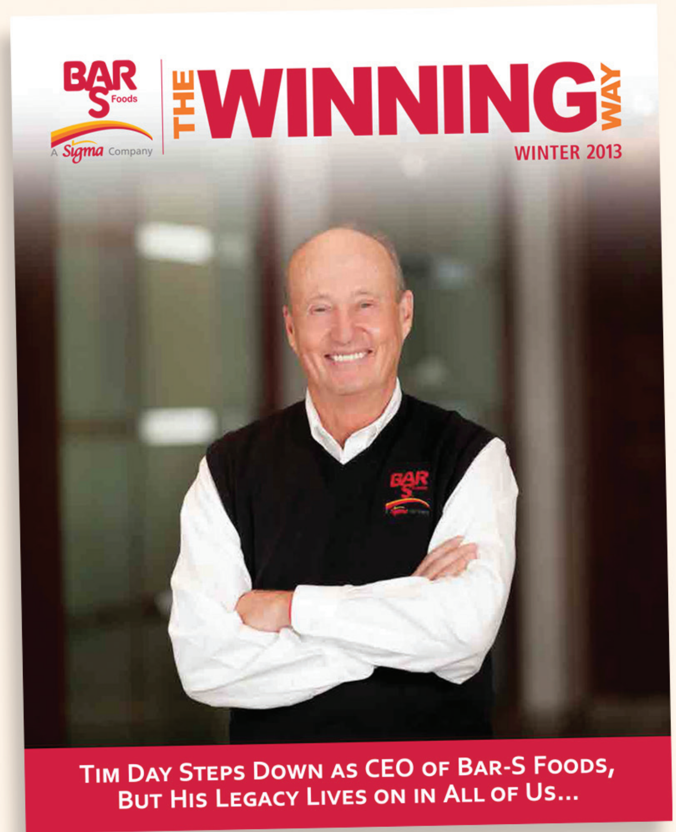
• Through pricing actions and product reformulations, an unprecedented increase in our largest raw material meat source – mechanically separated chicken – as well as increases in a few of our other raw materials and key ingredients was effectively mitigated. This allowed us to maintain margins; and

• All of the plants continued to perform very well, with increased labor efficiency, tight control of overhead expenses and improved yields.

Consolidated EBITDA (before parent company charges) was $94.7 million – up $20.2 million, or 27% over prior year. The Warehouse EBITDA increased by $3.1 million or 4%, to $74.8 million. The DSD & Longmont EBITDA increased a remarkable $17.1 million to $19.9 million. These increases principally resulted from the Best Practices and Seminole initiatives previously mentioned as well as substantially improved profits from the Dairy business. The overall EBITDA margin improved to 11.6% from 9.2% last year.

Total sales volume for the year was 661 million pounds, a 1% decline from prior year. An unfavorable economic climate marked by persistently high unemployment and depressed consumer spending hindered sales growth. Sales of Bar-S branded products were even with 2011, and our FUD, La Chona, and Longmont brands decreased 1% in total.

2012 was a truly outstanding year – one that reflects the hard work and extraordinary efforts of the entire Bar-S team. 2013 has begun and a new set of challenging objectives that requires our attention and focus are in place. The Company can build on the great positive momentum generated in 2012 to propel Bar-S to the next level of achievement, and with a united team effort; even higher standards of performance can be reached. Moreover, the Company remains committed to delivering the highest-quality products at the lowest possible cost and sustaining its place as the Value Leader and Premier Company in the Packaged Foods Industry.



Tim Day retires on December 31, 2012

In addition to the great performance in 2012, the year ended with another historical milestone. Tim Day, the founder of Bar-S, and the Company CEO since inception in 1981, retired from that role as of December 31, 2012, but will continue on as Chairman of the Board of Directors. Tim has been an inspirational leader with great vision, and the entire organization has benefited tremendously from his personal commitment and dedicated service. It is clear that he has had a profound impact, not only on the Company, but the entire packaged meats industry. In his new role as Chairman of the Bar-S Board of Directors, Tim will continue to have a significant impact on the Organization.

Warren Panico
President and CEO

In conjunction with Tim's retirement, Warren Panico was promoted to President and CEO. Warren has been with the Company for 16 years in progressively more resposible roles, starting in 1997 as Vice President of International Sales. Warren has also held the key positions of Executive Vice President, Operations and Executive Vice President, Sales and Marketing. Prior to joining Bar-S, Warren had over 15 years' experience in the meat industry in various executive-level positions. Warren's industry knowledge and leadership will help propel the Company to new levels in 2013 and beyond. ❖

Year Thirty-Two - 2013

The goal for 2013 was to build on the success and many accomplishments of 2012. The year got off to a good start, but by April it started getting rocky with aggressive competition, a still fragile U.S. economy, and rapidly escalating raw material costs, all contributing to lower than anticipated sales. Bad weather also impacted our summer holiday sales as it negatively affected consumer purchasing behavior.

Bar-S received some great news early in 2013. In March, Bar-S Foods was awarded Walmart's Vendor of the Year in the Grocery Business Unit for 2012. It was the first time Bar-S achieved this level of recognition with Walmart. To be recognized by the world's largest retailer in this fashion demonstrated that Bar-S was clearly on the right path to becoming the Value Leader in the Packaged Foods Industry.

2012 Vendor of the Year Award.

Another bright spot early in 2013 was the launch of a new line of Cheese products under the San Rafael brand. A brand with a long tradition in Mexico, now introduced to the US market to bring a line of authentic real Mexican cheeses to the US consumer.

2013 also brought the first major authorization in the food-service channel, a new initiative for the company. With a shipment of 400,000 pounds of Corn Dogs in the first quarter to a large Oklahoma-based food-service chain, the future was looking good for our Food Service business.

Meat & Poultry, April 2013

In April, Bar-S Foods was featured as the cover story in Meat & Poultry Business Journal. The feature highlighted the success of the Bar-S Sigma merger and the profound impact this was having on the Hispanic packaged foods market.

New line of Authentic Mexican Cheeses.

By the July 4th holiday, the weather and sales were looking brighter, with record shipments of nearly 20 million pounds in advance of the holiday, indicating retail sales we getting stronger. Sales did get stronger, and overall Bar-S delivered a very respectable performance in 2013 despite the challenges we faced. The company overcame the obstacles presented by the competition and the economy, and grew both sales and profits from a record year in 2012 -- along the way accomplishing several key objectives for the year, including growing fourth-quarter sales and profits by 4% and 9%, respectively, from the prior year.

SAP Implementation kicked off in 2013

While the full-year performance fell short of expectations and was below the Company plan for the year, there were nonetheless a number of significant accomplishments in 2013:

- We matched or outperformed the market in five of the six major categories in which we participate – Franks, Deli Pouch, Sliced Lunchmeat, Dinner Sausage, and Corn Dogs.
- We made substantial progress toward achieving many of our key long-term strategic initiatives that include significant growth in Ham and Poultry, Beef Franks and Sausage product lines.
- We secured our first major authorization in the Food-service channel, shipping over 1.8 million pounds.
- We converted our Payroll and Human Capital Management system to SAP, which is the first phase of our implementation of this enterprise-wide Computer Information Sustem.
- Our DSD Sales and Supply Chain teams continued to perform well, reducing spoilage losses to a record low while improving customer service levels.
- The sales of our Longmont brand grew 2.3 million pounds.
- We launched our new line of San Rafael cheese products. While only in limited distribution, the line was met with favorable acceptance in the markets we entered.
- We leveraged our operations and supply chain expertise to continue to co-pack franks for distribution internationally and this business grew almost 2 million pounds from the prior year;
- We started the revitalization of our FUD brand image in the U.S. through updated graphics on our packaging, vehicles, and materials at point of purchase.

Our consolidated EBITDA (before parent company charges) for 2013 was $96.2 million, with a total sales volume of 674 million pounds, a 2% increase over 2012, which was a great accomplishment considering the many challenges we faced throughout the year. ❖

Epilogue

It has been over thirty-four years since Bar-S Foods Co. was founded back in 1981. In a relatively short period of time Bar-S Foods Co. grew to become a dominant player in the packaged foods industry, persevering through every adversity, and overtaking many established brands along the way, to become a leader in the value segment of the market across the country. Our Company is now among the market leaders in our major product categories -- franks, sliced luncheon meats, sliced bacon, and smoked sausage.

Some might say we were just lucky, which brings to mind the adage, "The harder I work, the luckier I get." It wasn't luck, and it was more than just hard work. Our unusual success reflects the powerful combination of having a sound strategy that is implemented by an inspired team committed to the pursuit of excellence.

We had a dream, a Vision, to be the Premier Company and the clear Value Leader in the packaged meat industry. This Vision was clear in the minds of every employee on the Bar-S Team. We repeated our Vision aloud every workday morning at every Bar-S location so that it was constantly alive in all our minds. This Vision became the "true north" for our compass, and we all knew where we were headed. We focused our efforts on continuously improving all aspects of our business in order to further increase the Value we provide to the marketplace. We sought to elevate the quality of our products and services while at the same time lowering their costs.

We built a strong foundation by excelling in the basics and relentlessly pursuing continuous improvement in these five areas:

- **TEAMWORK**
- **CUSTOMER RELATIONSHIPS**
- **HIGH QUALITY**
- **SUPERIOR SERVICE**
- **LOW COST**

We carefully sought out people who exhibited the traits that fit our Company's culture; People with great perseverance, determination, enthusiasm, integrity, and positive attitudes -- people with tremendous energy who believed in unlimited possibilities. Then we embraced them, trained them, and gave them every opportunity to succeed.

In 2010 when Bar-S Foods became part of the Sigma/Alfa organization, we effectively integrated two world-class organizations into a very powerful enterprise; becoming the largest packaged foods company by volume in North America. Both companies brought together a strong history, culture, and value system, and combined them into a new multi-brand, multi-category company, with the people and expertise needed to continue the vision of becoming the Premier Company in the Packaged Foods industry.

In a commodity-oriented business like packaged foods, no company can dominate the marketplace with a just a single competitive advantage. However, it is possible to build a series of small competitive edges that by themselves are not decisive, but when combined create commanding competitive advantages -- particularly if they are developed in a sound and planned manner. This has been our strategy, and it has produced a dramatic transformation of this Company along with unprecedented growth.

Bar-S Foods Co. has achieved an enviable position in our industry. Our organization is lean, responsive, action-oriented, and team-spirited. Our facilities are centrally located, modern, clean, and highly efficient. Our workforce is well trained and motivated. Our sales force is the finest in the packaged foods industry, and particularly skilled at building strong customer relationships. We have a highly skilled marketing team developing brands and strategies to deliver our high quality products, to consumers in every product segment and in every demographic in the marketplace All this has led to a highly profitable, and financially sound company, with a strong foundation in place to continue our success for years to come.

Bar-S Foods Co. has tremendous momentum. The challenges we have faced from the early years struggling to survive, to the unprecedented response to a major recall, and the difficult task of integrating two distinguished and successful companies, all have served to make us stronger. Our legacy is one of being able to prevail during tough times and quickly regain our leadership position. We have accomplished this again and again throughout our history. Our strategy of providing Real Value to the marketplace is ageless -- it never gets old or goes out of style. Our foundation is indeed firm and provides solid footing for our march into the future. The Bar-S Foods Team has every reason to expect continued success and the realization of our Vision to be the recognized Premier Company, and clear Value Leader in the packaged foods industry.

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“We are what we repeatedly do.
Excellence, then, is not an act,
but a habit.”

Aristotle