

FRESH BRANDS INC
Form DEF 14A
April 12, 2005

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒ [X]
Filed by a Party other than the Registrant ☐ []

Check the appropriate box:

- ☐ [] Preliminary Proxy Statement
☐ [] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☒ [X] Definitive Proxy Statement
☐ [] Definitive Additional Materials
☐ [] Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

Fresh Brands, Inc.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ [X] No fee required.
- ☐ [] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
- 1) Title of each class of securities to which transaction applies:
 - 2) Aggregate number of securities to which transaction applies:
 - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
 - 4) Proposed maximum aggregate value of transaction:
 - 5) Total fee paid:
- ☐ [] Fee paid previously with preliminary materials.
- ☐ [] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- 1) Amount Previously Paid:
 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:

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FRESH BRANDS, INC.
2215 Union Avenue
Sheboygan, Wisconsin 53081

**NOTICE OF 2005 ANNUAL
MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 26, 2005**

Dear Shareholder:

We invite you to attend our 2005 annual meeting of shareholders on May 26, 2005 at 3:00 P.M. at the John Michael Kohler Arts Center, located at 608 New York Avenue, Sheboygan, Wisconsin and at any postponement or adjournment thereof (collectively, the Meeting). As we describe in our accompanying proxy statement, if you held shares of our common stock on March 30, 2005, you will be entitled to vote at the Meeting:

1. on the election of three directors;
2. to approve the extension of the term of our 1995 Equity Incentive Plan; and
3. on any other business that may properly come before the Meeting.

We have enclosed a proxy card and our 2004 annual report along with this proxy statement. Your vote is important, no matter how many shares you own. Even if you plan to attend the Meeting, please complete, date and sign the proxy card and mail it as soon as you can in the envelope provided. If you attend the Meeting, you can revoke your proxy and vote your shares in person if you like.

Thank you for your continued support. We look forward to seeing you at our Meeting.

Sincerely,

FRESH BRANDS, INC.

/s/ John H. Dahly

John H. Dahly
Executive Vice President, Chief Financial Officer,
Secretary and Treasurer

Sheboygan, Wisconsin
April 18, 2005

FREQUENTLY ASKED QUESTIONS

Q: Why did I receive this proxy statement?

Our board of directors has sent you this proxy statement starting on or about April 18, 2005 to ask for your vote, as a Fresh Brands shareholder, on two matters to be voted on at the Meeting.

Q: What am I voting on?

You will vote on the election of three directors and to approve the extension of the term of our 1995 Equity Incentive Plan. We are not aware of any other matter that will be presented for your vote at the Meeting.

Q: Do I need to attend the Meeting in order to vote?

No. You can vote either in person at the Meeting or by completing and mailing the enclosed proxy card.

Q: What happens if I sign and return my proxy card but do not mark my vote?

Q: How many shares of Fresh Brands' stock are entitled to vote?

A total of 4,931,934 shares of common stock are entitled to vote at the Meeting. Each share of common stock is entitled to one vote on each matter submitted for shareholder consideration at the Meeting.

Q: What constitutes a quorum?

A "quorum" is the number of shares that must be represented, in person or by proxy, to lawfully conduct business. A majority of the shares of our common stock constitute a quorum. As a result, at least 2,465,968 shares must be represented at the Meeting before we can take action at the Meeting.

Q: What is the address and telephone number of Fresh Brands?

The address of our principal executive office is 2215 Union Avenue, Sheboygan, Wisconsin 53081. Our telephone number is (920) 457-4433.

Q: Who are your largest shareholders?

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If you return a signed proxy card without indicating how you wish to vote, Walter G. Winding, III and Louis E. Stinebaugh, as proxies, will vote your shares to elect our nominees for directors and to extend the term of our 1995 Equity Incentive Plan. Investors holding 5% or more of our outstanding common stock are:

Investors holding 5% or more of our outstanding common stock are:

- 1) Franklin Resources, Inc. - 18.3%
- 2) Fresh Brands Distributing, Inc. Retirement Savings Plan - 6.1%
- 3) Freshgroup, LLC - 5.0%

Q: What percentage of Fresh Brands' votes do directors and officers beneficially own?

Approximately 3.7% of our shares in total, as of the record date, are beneficially owned by our directors and officers.

Q: What do I need to do now?

Just mail your signed proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares may be represented at the Meeting.

Q: Who is entitled to vote?

Everyone who owned our shares as of the close of business on the March 30, 2005 record date is entitled to vote.

Q: Can I revoke my proxy after it is returned?

Yes, you may revoke your proxy at any time before it is exercised by giving notice thereof to us in writing or in person at the Meeting. If you have executed a proxy and attend the Meeting, your presence at the Meeting does not, in itself, revoke your proxy.

Q: Who will count the votes?

American Stock Transfer & Trust Company, our transfer agent and registrar, will count the votes and act as inspector of elections at the Meeting. The address for our transfer agent and registrar is 59 Maiden Lane, Plaza Level, New York, NY 10038.

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PROXY STATEMENT

For the 2005 Annual Meeting Of Shareholders
to be Held On May 26, 2005

This proxy statement and accompanying form of proxy are being furnished to our shareholders, beginning on or about April 18, 2005, in connection with the solicitation of proxies by our board of directors for use at our 2005 annual meeting of shareholders on May 26, 2005 at 3:00 P.M. at the John Michael Kohler Arts Center, located at 608 New York Avenue, Sheboygan, Wisconsin and at any postponement or adjournment thereof (collectively, the Meeting), for the purposes set forth in the attached Notice of 2005 Annual Meeting of Shareholders and described herein.

Execution of a proxy will not affect your right to attend the Meeting and to vote in person, nor will your presence revoke a previously submitted proxy. You may revoke a previously submitted proxy at any time before it is exercised by giving written notice of your intention to revoke the proxy to our Secretary, by notifying the appropriate personnel at the Meeting in writing or by voting in person at the Meeting. Unless revoked, the shares represented by proxies received by our board of directors will be voted at the Meeting in accordance with the instructions thereon. If no instructions are specified on a proxy, the votes represented thereby will be voted to elect our nominees for directors, to extend the term of our 1995 Equity Incentive Plan and on such other matters that may properly come before the Meeting in accordance with the best judgment of the persons named as proxies.

Only holders of record of shares of our common stock as of the close of business on March 30, 2005 (the Record Date) are entitled to vote at the Meeting. As of the Record Date, there were 4,931,934 shares of common stock outstanding, all of which are entitled to vote. The record holder of each outstanding share of common stock on the Record Date is entitled to one vote per share.

ELECTION OF DIRECTORS

In January 2005, G. William Dietrich resigned from our board to commit his full energies to the pursuit of other business ventures and opportunities. During Mr. Dietrich's service on our board, he made numerous valuable contributions to our board and his perspectives will be missed.

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At the Meeting, our shareholders will elect three directors to hold office until our 2008 annual meeting. Our Nominating Committee has recommended, and our board has nominated, R. Bruce Grover, William E. May, Jr. and Thomas M. Stemlar as the three directors to hold office until our 2008 annual meeting. Mr. Grover is a shareholder-elected director and Messrs. May and Stemlar were elected as directors by our board in 2004 to fill vacancies on our board. If no instructions are specified on a proxy, then Walter G. Winding, III and Louis E. Stinebaugh, as proxies, intend to vote for the election of these three nominees. They will also vote for another person that our Nominating Committee may recommend and our board may nominate in the event that any of these nominees becomes unable to serve as a director before the Meeting.

Under Wisconsin law, shareholders elect directors by a plurality of the votes cast. This means that the nominees receiving the largest number of votes, even if less than a majority, will be elected as directors. Any shares that are not voted, whether by abstention, broker non-vote or otherwise, will not affect the election of directors.

Our board of directors unanimously recommends a vote for R. Bruce Grover, William E. May, Jr. and Thomas M. Stemlar. Shares of common stock represented at the Meeting by executed but unmarked proxies will be voted for the election of each of these director nominees.

The following tables list information about our board of directors and its committees.

Class I - Nominees for Election at the Meeting

	Board	Nominating Committee	Audit Committee	Compensation Committee	Stock Option Committee	Corporate Governance Committee
R. Bruce Grover (69), a director since 1989; retired President and Chief Executive Officer of VPI, LLC - a manufacturer of solid vinyl floor products, custom extruded sheets and sound barrier materials for automotive applications that was sold in 2004 and 2005 ⁽²⁾	X	X	X	X (1)	X (1)	X
William E. May, Jr. (56), a director since 2004; Executive Vice President - Chief Operating Officer of Too, Inc, a publicly traded operator of two specialty retail clothing brands, Limited Too and Justice ⁽²⁾	X	X	X	X	X	X
Thomas M. Stemlar (67), a director since 2004; retired partner of Arthur Andersen LLP, a former nationally recognized independent auditing firm ⁽²⁾	X	X	X (1)	X	X	X

Class II - Directors Whose Terms Expire in 2006

	Board	Nominating Committee	Audit Committee	Compensation Committee	Stock Option Committee	Corporate Governance Committee
Louis E. Stinebaugh (48), a director since 2004; President and Chief Operating Officer of Fresh Brands, Inc. ⁽³⁾	X					
Bruce J. Olson (55), a director since 1999; Senior Vice President and a director of The Marcus Corporation - owner and operator of	X	X		X	X	X

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Class I - Nominees for Election at the Meeting

hotels, resorts and movie theatres⁽²⁾

Walter G. Winding, III (63), a director since 1999 and our independent Chairman of the Board since 2000; owner and Chief Executive Officer of Winding and Company - a business consulting firm⁽²⁾

|X|(1)

|X|(1)

|X|

|X|

|X|

Class III - Director Whose Term Expires in 2007

	Board	Nominating Committee	Audit Committee	Compensation Committee	Stock Option Committee	Corporate Governance Committee
Steven R. Barth (46), a director since 1998; Partner in the law firm of Foley & Lardner LLP ⁽²⁾	X	X		X		X (1)
Meetings held in 2004	6	1	7	2	2	1

- 1) Denotes Chairman.
- 2) Independent director, as defined by the Nasdaq rules applicable to directors generally.
- 3) Because we operate as a holding company, Mr. Stinebaugh is also a director and officer of certain of our subsidiaries.

All of our current directors attended at least 75% of the board and applicable committee meetings in 2004. In addition, all of our directors have held the positions indicated on the preceding charts for at least the last five years, except that:

R. Bruce Grover retired from his positions at VPI LLC in connection with the sale of VPI's businesses in 2004 and 2005.

William E. May, Jr. became the Executive Vice President - Chief Operating Officer of Too, Inc. in February 2004. He was the President and Chief Executive Officer, Wholesale for Fleming Companies from June 2002 until November 2003 and was the Vice President, Gap Global Distribution for Gap, Inc. from March 1999 until June 2002. Mr. May has also held roles as Executive Vice President/Chief Operating Officer for Nash Finch Company, Senior Vice President Operations, Marketing, Procurement and MIS for Spartan Stores and other executive positions in the food industry.

Bruce J. Olson was promoted from Group Vice President to Senior Vice President of The Marcus Corporation in October 2004.

Louis E. Stinebaugh became our President and Chief Operating Officer in May 2004, served as our Executive Vice President Operations from December 2003 to May 2004, was the President of the Sentry Division of SuperValu, Inc. from September 2003 to December 2003, was the President of the Sentry Division in Milwaukee of Fleming Companies, Inc. from March 2001 to September 2003 and was a Vice President of Merchandising/Marketing at Fleming prior to March 2001.

Our Nominating Committee

All of the members of our Nominating Committee are independent directors, as defined by the rules applicable to the members of the Committee. The Nominating Committee's written charter is available free of charge at <http://www.fresh-brands.com/Investorfare.html>. The Nominating Committee's principal functions include:

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identifying and recommending to our board prospective candidates for board membership; and

selecting candidates for each of the board's committees.

Shareholders can seek to have their director nominees elected directly by our shareholders. Our bylaws require such nominations to be made pursuant to timely notice (as specified in the bylaws) in writing to our secretary. This notice must contain information relating to the nominee which is required to be disclosed by our bylaws and the Securities Exchange Act of 1934 and must be sent to John H. Dahly, Fresh Brands, 2215 Union Avenue, Sheboygan, Wisconsin 53081. To be included in our proxy statement for our 2006 annual meeting of shareholders, such notice must be received by us by December 19, 2005.

Alternatively, shareholders can seek to have their potential director nominees considered by our Nominating Committee, which will consider such potential nominees based on the criteria summarized below. All potential nominees identified by shareholders are evaluated in the same manner as potential nominees identified by directors, officers or others. Shareholders may recommend such potential director nominees by writing to the chairman of the Nominating Committee, Walter G. Winding, III, Fresh Brands, 2215 Union Avenue, Sheboygan, Wisconsin 53081. To be considered by our Nominating Committee for election as a director at our 2006 annual meeting of shareholders, such notice must be received by December 19, 2005.

In identifying and evaluating nominees for director, the Nominating Committee seeks nominees that will ensure that the board possesses, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives. The Nominating Committee also seeks to ensure that the board consists of directors who have broad and diverse backgrounds, possessing knowledge in areas that are of importance to us, including those summarized below, among others. In evaluating the qualifications of each candidate, the Nominating Committee takes into account all factors it considers appropriate. The Nominating Committee believes that nominees for director shall be generally selected on the basis of:

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broad business experience, including management experience or specific experience in our industry, with franchise systems, as directors or executive officers of other public companies, substantial professional experience with other public companies and knowledge of our competitive marketplace;

the ability to make independent analytical inquiries, including the ability to challenge management and other board members when necessary in an appropriate manner;

wisdom and business acumen;

integrity, including consistently adhering to strong ethical standards;

understanding of our business and ability and willingness to devote adequate time to board and committee duties;

knowledge of the important corporate governance issues that are important to us and our shareholders;

the ability to fit with the culture of our company, management team and board; and

if applicable, the view of our institutional shareholders and business partners, including our franchisees, employees, lenders and vendors.

Our Audit Committee

All of the members of our Audit Committee are independent directors, as defined by the rules applicable to members of the Committee. William E. May, Jr. and Thomas M. Stemlar are audit committee financial experts, as defined by the Securities and Exchange Commission (SEC). The Audit Committee's written charter is available free of charge at <http://www.fresh-brands.com/Investorfare.html>. The Audit Committee's principal functions include:

appointing, approving the compensation for and overseeing our independent auditors;

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reviewing annual audit plans with management and our independent auditors;

preapproving all non-audit services provided by our independent auditors;

overseeing management's evaluation of the adequacy of our internal and business controls, disclosure controls and procedures and risk assessment and management;

reviewing areas of financial risk that could have a material adverse effect on our results of operations and financial condition with management and our independent auditors;

reviewing our policies as to officers' conflicts of interest with management and our independent auditors;

evaluating the independence of our independent auditors; and

receiving, retaining and addressing complaints (including employees' confidential, anonymous submission of concerns) regarding financial disclosure and accounting and auditing matters.

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Our Compensation Committee

All of the members of our Compensation Committee are independent directors, as defined by the rules applicable to members of the Committee. The Compensation Committee's written charter is available free of charge at <http://www.fresh-brands.com/Investorfare.html>. The Compensation Committee's principal functions include:

evaluating and setting cash compensation levels for our officers;

reviewing and establishing the employee benefits we offer to our officers;

determining our officers' annual bonuses; and

reviewing our compensation policies for our nonemployee board members.

Our Stock Option Committee

All of the members of our Stock Option Committee are independent directors, as defined by the rules applicable to members of the Committee. The Stock Option Committee's written charter is available free of charge at <http://www.fresh-brands.com/Investorfare.html>. The Stock Option Committee's principal functions include:

evaluating and granting stock options and other equity incentives to our directors, officers and other employees; and

administering our equity incentive plans.

Our Corporate Governance Committee

All of the members of our Corporate Governance Committee are independent directors, as defined by the rules applicable to members of the Committee. The Corporate Governance Committee's written charter is available free of charge at <http://www.fresh-brands.com/Investorfare.html>. The Corporate Governance Committee's principal functions include:

developing and maintaining our corporate governance policy guidelines;

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developing and maintaining our Code of Conduct;

overseeing the interpretation and enforcement of our Code of Conduct; and

evaluating the performance of our board, its committees and committee chairmen and our directors.

Stock Ownership of Management and Others

The following table describes certain information, as of the Record Date, regarding the beneficial ownership of our common stock held by:

each person or entity that we know beneficially owns more than 5% of our common stock;

each of our directors and our executive officers who are named in the Summary Compensation Table under "Summary Compensation Information" below; and

all of our directors and named executive officers as a group.

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We believe that, as of the Record Date, all of the people listed below have sole voting and investment power over the listed shares, except as indicated otherwise in the accompanying footnotes.

<u>Name of Individual or Entity</u>	<u>Shares</u>	<u>Percentage</u> ⁽¹⁾
Franklin Resources, Inc. ⁽²⁾	900,000	18.3%
Fresh Brands Distributing, Inc. Retirement Savings Plan ⁽³⁾	302,828	6.1%
Freshgroup, LLC ⁽⁴⁾	246,700	5.0%
Walter G. Winding, III ⁽⁵⁾	61,337	1.2%
R. Bruce Grover ⁽⁶⁾	34,044	*
Louis E. Stinebaugh ⁽⁷⁾	30,000	*
Bruce J. Olson ⁽⁸⁾	28,652	*
Thomas M. Stemlar ⁽⁹⁾	12,904	*
William E. May, Jr. ⁽¹⁰⁾	10,904	*
Steven R. Barth	6,875	*
John H. Dahly ⁽¹¹⁾	3,333	*
Jonathan B. Hoenecke	2,500	*
All current directors and executive officers as a group (9 persons) ⁽¹²⁾	186,029	3.7%

* Indicates less than 1%

- 1) For individuals who hold rights to acquire shares of stock upon exercise of stock options, the percentages reflect inclusion of certain of these shares as described in the footnotes below as well as the increase in the total number of shares of common stock outstanding that would result from their exercise of those options.
- 2) We obtained the share amount listed from the Schedule 13G/A, dated February 14, 2005, filed with the SEC. The address of Franklin Resources, Inc. is One Franklin Parkway, San Mateo, California 94403.
- 3) We obtained the share amount listed from the Schedule 13G/A, dated February 7, 2005, filed by the Fresh Brands Distributing, Inc. Retirement Savings Plan with the SEC. The listed shares were held by MFS Investment Management (MFS), as trustee for the Fresh Brands Distributing, Inc. Retirement Savings Plan. Retirement Savings Plan participants have investment power over the listed shares held by the Retirement Savings Plan that are allocated to their accounts. A Plan Administrative Committee, consisting of Jonathan B. Hoenecke , Michael G. Isken, Nadine A. Becker and Wayne A. Wiertzema (each of whom is an

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employee of the company), administers the Retirement Savings Plan and shares voting power for the shares listed with the participants in the Retirement Savings Plan in that the Plan Administrative Committee is entitled to vote shares when participants have provided no voting instructions. The address of MFS is 500 Boylston Street, Boston, MA 02116. The address for the individual members of the Plan Administrative Committee is c/o Fresh Brands, Inc., 2215 Union Avenue, Sheboygan, Wisconsin 53081.

- 4) We obtained the share amount listed from the Schedule 13D, dated February 1, 2005, filed with the SEC. The address of Freshgroup LLC is c/o Mr. Fred Chikovsky, 1720 Harrison Street, 7th Floor, Hollywood, Florida 33020.
- 5) The share amount listed includes (a) 50,000 shares which Mr. Winding can acquire by exercising stock options that are exercisable within 60 days following the Record Date; and (b) 3,346 shares held as joint tenant with his wife.
- 6) The share amount listed includes 25,000 shares which Mr. Grover can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 7) The share amount listed includes 25,000 shares which Mr. Stinebaugh can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 8) The share amount listed includes 25,000 shares which Mr. Olson can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 9) The share amount listed includes 10,000 shares which Mr. Stemlar can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 10) The share amount listed includes 10,000 shares which Mr. May can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 11) The share amount listed represents shares which Mr. Dahly can acquire by exercising stock options that are exercisable within 60 days following the Record Date.
- 12) The share amount listed includes 148,333 shares issuable under stock options that are exercisable within 60 days of the record date.

AUDIT COMMITTEE REPORT

Our management is responsible for the company's financial reporting process, including (a) its system of internal controls and issuing an annual report on the company's internal control over financial reporting and (b) the preparation of the company's consolidated financial statements in accordance with accounting principles generally accepted in the United States. The company's independent auditors are responsible for (i) assessing the company's internal control over financial reporting and attesting to management's report thereon and (ii) auditing the company's financial statements. Our responsibility is to oversee, monitor and review these processes. It is not our duty or our responsibility to establish or assess internal controls or conduct auditing or accounting reviews or procedures. Therefore, we have relied, without independent verification, on management's representations, including those in the certifications of the financial statements that have been filed with the SEC, that the company's financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States. We have similarly relied on management's annual report on the company's internal controls over financial reporting. We have also relied on the reports and attestation of the company's independent auditors. Our discussions with management and the company's independent auditors do not ensure that the company's financial statements are presented in accordance with accounting principles generally accepted in the United States, that the audit of the company's financial statements has been carried out in accordance with auditing standards generally accepted in the United States, that management's annual report regarding the company's internal control over financial reporting, or that the related attestation of the company's independent auditors, are accurate or that the company's independent auditors are in fact independent.

Annually, our Committee carefully considers the engagement of independent auditors to report on our annual financial statements and the adequacy of our system of internal controls over financial reporting. Effective as of April 19, 2004, we changed our independent auditors from KPMG LLP ("KMPG") to Deloitte & Touche LLP ("Deloitte & Touche"). During KPMG's retention as our independent auditors, there were no

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disagreements with KPMG on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure. We met with management and auditors throughout the year to assure a seamless transition.

Our Audit Committee carried out all of the responsibilities set forth in our charter adopted February 26, 2004. In connection therewith, we reviewed and discussed the company's 2004 audited financial statements and auditor's report thereon with Deloitte & Touche and the company's management. Our Audit Committee separately discussed with the company's management and independent auditors the quality of the company's financial reporting to shareholders and the adequacy of the company's internal controls over financial reporting. Identified internal control deficiencies, none of which are considered by management or auditors to be material, and remedial actions were reviewed and discussed. In addition, the Audit Committee discussed the interim financial information contained in each quarterly earnings announcement and financial report with management and the independent auditors, prior to public release.

We also met with Deloitte & Touche and discussed various other matters, including those required to be communicated by them under United States auditing standards. These discussions included (a) the auditors' responsibilities under current auditing standards; (b) the overall audit scope and approach to the audit of the company's consolidated financial statements and the company's internal controls over financial reporting; (c) significant accounting principles that are particularly important to the company's financial reporting; and (d) significant management judgments and estimates made in connection with the preparation of the consolidated financial statements, particularly those relating to repositioning and impairment matters, asset valuation reserves and contingencies. We were also advised that there were no disagreements with management and no consultations with other auditors.

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We also received a written report and a letter from Deloitte & Touche disclosing all relationships with the company. Deloitte & Touche's letter advised us that, in 2004, it received from the company the fees summarized below under the caption "Our Independent Auditors." Deloitte & Touche discussed its letter with us and advised us that it did not believe its audit was impaired by its provision of non-audit related services. As a result, Deloitte & Touche confirmed that, as of February 24, 2005, it was an independent accountant with respect to the company within the meaning of the Securities Act administered by the SEC and the requirements of the Independence Standards Board. We considered that Deloitte & Touche's provision of non-audit services was compatible with maintaining its independence with respect to the company.

Based on our discussions with management and Deloitte & Touche, as well as our review of the representations of management and Deloitte & Touche's reports, we recommended to the Board of Directors that the company's audited consolidated financial statements as of and for the year ending January 1, 2005 be included in the company's Annual Report on Form 10-K for its fiscal year ended January 1, 2005 filed with the SEC.

This report: (i) does not constitute soliciting material; (ii) shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent this report or the performance graphs are specifically incorporated; and (iii) shall not otherwise be deemed filed under such Acts.

By the Audit Committee:

Thomas M. Stemlar, Chairman
R. Bruce Grover
William E. May, Jr.
Walter G. Winding, III

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EXECUTIVE COMPENSATION

Our Compensation Committee of the Board of Directors evaluates and establishes the compensation of our executive officers. Our executive compensation program is designed to:

- attract, retain and motivate key officers;
- encourage a focus on strategic objectives which will result in superior current and long-term financial performance;
- establish a strong link between officer compensation and the company's financial performance;
- link long-term incentives to increasing shareholder value; and
- allow consideration of the positive or negative effects of extraordinary events on financial performance.

Our executive compensation package consists of four principal components: base salary, annual incentive bonus eligibility, annual stock option grants, and other supplemental compensation and employee benefits. We structure each individual component of the company's executive compensation as well as the company's entire executive compensation package in a manner that closely aligns the economic interests of our management with the economic interests of our shareholders. We do this by making a substantial part of the company's executive compensation package dependent upon the company's achievement of specific annual corporate financial performance objectives, and by tying our executives' long-term compensation potential to future increases in the company's stock price. We are firm believers in performance-based compensation and we believe that this philosophy is best implemented by linking a substantial portion of our officers' compensation packages to the company's financial performance. Additionally, by making stock option grants the principal long-term component of our executive compensation package, we believe we've directly linked our executives' realization of benefits from these option grants to future increases in the intrinsic value of our company. At least conceptually, we believe that shareholder value should be driven principally by the company achieving its targeted financial performance goals.

The company did not meet its 2004 financial performance goals. As a result, none of our executive officers received the 80% of their potential cash bonus for 2004 that is dependent upon meeting these goals. Similarly, in light of the company's 2004 financial results and its decreased stock price, none of our executive officers received the 20% of their potential cash bonus for 2004 that is dependent upon meeting other individual and company goals and objectives. The company's officers, other than Messrs. Stinebaugh and Dahly, who were appointed to their new positions relatively recently, did receive salary increases for 2005. These salary increases were approved despite the company's recent financial performance in part because the company had frozen base salaries for the previous two years.

Salary

Base salary is the largest portion of the cash compensation package received by each of our executives. However, consistent with our executive compensation philosophy, the other components of our executive compensation represent, in total, a significant portion of total potential compensation. By structuring our officers' compensation in this manner, we establish a strong link between company performance and executive compensation because if the company does not achieve its targeted annual financial goals, then our executives will not receive a significant portion of their total potential compensation.

Each of our officers' base salary is based principally on (i) relative position at the company; (ii) increases (if any) in duties and responsibilities; (iii) existing and anticipated ability to directly impact corporate performance; (iv) personal performance and leadership abilities; and (v) the company's financial performance.

We based the salary of Mr. Stinebaugh, our President and Chief Operating Officer, on the foregoing factors along with his experience in our industry, knowledge of our markets and his performance since joining our company in December 2003, particularly the strong leadership characteristics that he has displayed. In May 2004, Mr. Stinebaugh was promoted to the positions of President and Chief Operating Officer and his salary was increased from \$250,000 to \$375,000 to compensate him for the increased duties and responsibilities associated with his promotion. In light of this recent salary increase, Mr. Stinebaugh's salary for 2005 was not increased.

Annual Bonus

Each of our executive officers is eligible to receive an annual cash bonus equal to a preestablished percentage of his base salary. These eligibility percentages range from 20% to 50% of the executive's base salary. Because we believe that the amount of annual bonuses should be directly linked to the company's achievement of its annual financial performance targets (which, in turn, we believe should fundamentally translate into increased shareholder value), 80% of each executive's potential bonus eligibility is dependent upon whether the company meets or exceeds our preestablished annual earnings per share before tax goal for that year. Generally, this portion of each executive's potential bonus will not be paid unless the company's earnings per share before tax target is met or exceeded. However, we may decide to pay some or all of this eligible bonus amount if we determine that the company's earnings per share before tax target was not met as a result of extraordinary or unusual

circumstances beyond the company's control. Additionally, if the company substantially exceeds its earnings per share before tax target, we may decide to increase the amount of bonuses paid to some or all of our executives. The remaining potential 20% of each executive's bonus eligibility is dependent upon whether other specific preestablished individual and company goals and objectives are met, as well as other subjective factors that we believe are appropriate.

Because the company did not meet its 2004 financial performance goals, none of our executive officers, including Mr. Stinebaugh, received the 80% of their potential cash bonus for 2004 that is dependent upon meeting these goals. Similarly, in light of the company's financial results in 2004 and its decreased stock price, none of our executive officers, including Mr. Stinebaugh, received the 20% of their potential cash bonus for 2004 that is dependent upon meeting other individual and company goals and objectives. However, in order to incentivize Mr. Stinebaugh to join the company in December 2003, he and the company agreed that, six months after he joined the company, he would be eligible for a one-time bonus if he and the company substantially met mutually agreed upon performance goals. Both the company and Mr. Stinebaugh substantially met these performance goals and, in June 2004, Mr. Stinebaugh received a one-time cash bonus of \$21,000 and a one-time bonus grant of stock valued at \$18,250.

Long-Term Incentives Stock Options

Our Stock Option Committee, which includes all of the members of our Compensation Committee except Steven R. Barth and Walter G. Winding, III, annually grants stock options to our executives under our 1995 equity incentive plan. We use stock option grants to supplement the cash portion of our executive compensation package and to provide the long-term incentive compensation element of our executive compensation package. Since the value of stock options is inherently dependent upon the future market price appreciation of the company's common stock, stock options will only provide our executive officers with economic value to the extent that the market price of the company's common stock increases. Thus, we believe that these stock option grants help further align the economic interests of our executive officers with those of our shareholders. We have historically granted options at 100% of the fair market value of the company's common stock on the date of grant, with a term not to exceed ten years and with vesting in increments of one-third on each of the first, second and third anniversaries of the grant date. Shares acquired by the exercise of stock options granted to our executive officers in and after 2003 cannot be sold for one year unless the executive has reached the age of 60 prior to exercising the option. We believe that this holding period helps better align the interests of our executive officers and shareholders because our executive officers will only receive value from our options if our stock price appreciates and retains its value at least through the holding period.

Although not determinative, each executive officer's relative salary serves as a base guideline for the number of shares subject to his annual option grant. We also concentrate the relative size of option grants on the officers who we believe will have the greatest impact upon the company's future financial performance. In addition, we carefully analyze the total number of shares made subject to stock options granted each year to ensure that the goals of our 1995 equity incentive plan are realized without unnecessarily diluting our current shareholders. Finally, when determining the relative size of each officer's stock option grant, our Stock Option Committee has broad discretion to consider a variety of other factors, including the factors listed below that influence the options that are granted, as well as other subjective factors.

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Our Stock Option Committee based its 2004 stock option grants to each continuing officer principally on (i) relative position at the company; (ii) increases (if any) in duties and responsibilities; (iii) existing and anticipated ability to directly impact corporate performance; (iv) relative level of cash compensation; (v) prior levels of stock option grants; (vi) options then currently held; (vii) direct stock ownership; and (viii) the company's 2004 financial performance. Each executive officer's individual initiatives and achievements over the prior year also affected the level of each officer's option grant. Mr. Stinebaugh's option grant was based on these factors, along with his performance since he joined the company in 2003, particularly the strong leadership characteristics that he has displayed. In addition, in order to incentivize him to purchase additional shares of our stock, and further align his interests with the interests of our shareholders, in 2004, Mr. Stinebaugh was granted an option to purchase 10 shares of our common stock for each share of such stock he purchased.

We believe that our 1995 equity incentive plan has been adopted, and is being administered, in accordance with the requirements of Internal Revenue Code Section 162(m). Given the levels of compensation and benefits provided currently to our executive officers, we do not otherwise believe it is necessary to further conform or adjust our compensation policies, plans or practices to comply with the \$1 million executive compensation deductibility cap imposed by Internal Revenue Code Section 162(m).

Other Compensation

Our executive officers participate in the retirement savings plans that we provide for our employees. These plans allow us to make discretionary contributions as determined by our Board. In addition, the plans permit pretax employee contributions pursuant to Internal Revenue Code Section 401(k). We provide matching contributions to our employees' pre-tax contributions to these plans.

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We maintain an executive benefit restoration plan, which is a supplemental benefit pension plan intended to provide benefits otherwise denied to participants under one of our retirement savings plans by reason of limitations imposed by the Internal Revenue Code. The executive benefit restoration plan provides mandatory benefit accruals on pay in excess of the amount able to be recognized by a participant under the retirement savings plan for the year. The executive benefit restoration plan also allows eligible employees to defer receipt of some or all of his or her annual compensation on a pre-tax basis. We apply to the amounts in each eligible employee's plan account an earnings credit based on the prime interest rate of a designated Milwaukee bank. The benefits payable under the executive benefit restoration plan will be paid out of our general corporate assets.

This report and the performance graphs included elsewhere in this proxy statement (i) do not constitute soliciting material; (ii) shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent this report or the performance graphs are specifically incorporated; and (iii) shall not otherwise be deemed filed under such Acts.

By the Compensation Committee:

R. Bruce Grover, Chairman
Steven R. Barth
William E. May, Jr.
Bruce J. Olson
Thomas M. Stemlar
Walter G. Winding, III

By the Stock Option Committee:

R. Bruce Grover, Chairman
William E. May, Jr.
Bruce J. Olson
Thomas M. Stemlar

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Summary Compensation Information

The table below describes the compensation paid to our current executive officers:

Summary Compensation Table

Name and Principal Positions	Fiscal Year	Annual Compensation		Shares Underlying Options Granted ⁽¹⁾	All Other Compensation ⁽²⁾
		Salary	Bonus		
Louis E. Stinebaugh President and Chief Operating Officer	2004	\$ 329,327 ⁽³⁾	\$ 39,250	25,000	\$ 6,150
	2003	\$ 9,615 ⁽⁴⁾	\$ 0	75,000	\$ --
John H. Dahly Executive Vice President, Chief Financial Officer, Secretary and Treasurer	2004	\$ 224,231	\$ 0	10,000	\$ 10,083
	2003	\$ 8,462 ⁽⁴⁾	\$ 0	0	\$ --
Jonathan B. Hoenecke Vice-President of Finance ⁽⁶⁾	2004	\$ 72,692 ⁽⁵⁾	0	6,000	\$ 40,288