



# People. Products. Performance.

2009 Annual Report



*The* **SCHWAN**  
FOOD COMPANY

# A MESSAGE

## From the CEO



The 18,000 employees of The Schwan Food Company's subsidiaries made a commitment in 2009 to become the best branded frozen-food company on the face of the earth. It's an ambitious goal in a marketplace full of capable competitors, but I am happy to report that we have made significant strides in our journey. Our efforts to deliver unique value and quality to consumers helped the company achieve a significant turnaround in performance. Together, we've reached near-record profitability and laid a sound foundation for future growth.

We have produced these results by focusing on three strategic areas where we continue to strive to be the best: Our People, Our Products and Our Performance. These strategic imperatives represent focus areas that are delivering results for The Schwan Food Company, whether it is with our home-service business, the brands we offer in grocery and club stores, or the products that we provide restaurants, schools and other away-from-home customers.

Our strategy focuses on a simple premise: If we focus on putting the best team on the field, we can produce the best and most innovative products and deliver the greatest value and quality to consumers. Ultimately, this focus will result in an enviable and consistent financial performance that will provide resources for future growth.

### **Our People**

We know the foundation of our success lies with our people. This year, we partnered with a top firm to help us measure and improve employee-engagement levels throughout the organization. We are striving to build a high-performance culture that encourages the growth and success of all of us. To that end, we strengthened our performance management discipline, and we launched a new employee recognition program called the High Performance Recognition Award. This program recognizes and rewards employees for achieving results and helping the company exceed its strategic objectives and financial goals. I am happy to report that hundreds of awards were given to employees throughout the year.

At Schwan, we work from nearly 600 locations in a broad range of careers, whether it's in sales and marketing, food production and development, or in support positions. More than ever, we have come together as The Schwan Food Company, and we are truly working as a team to accomplish our goals. We know that we are stronger if we use the expertise and skills throughout the organization to achieve results in the marketplace.

**Our Products**

In 2009, we increased the intensity of our focus and the level of our investment into our brands and products. We launched targeted advertising and marketing campaigns touting the quality, taste and convenience of frozen foods sold under trusted brands like *Edwards*<sup>®</sup> and *Mrs. Smith's*<sup>®</sup> desserts and *Red Baron*<sup>®</sup>, *Freschetta*<sup>®</sup> and *Big Daddy's*<sup>®</sup> pizza, and we are making significant investments in contemporizing the *Schwan's*<sup>®</sup> home-delivery brand and business model.

We have also committed ourselves to innovation and developing delicious,

convenient foods that solve the needs of today's consumers. We launched more than 200 high-quality new products, representing a 90 percent increase to the prior year. We also conducted exhaustive consumer research that helped increase the forecasted value of our new-product pipeline by 80 percent.

In 2010, you will see an even stronger delivery of innovation. Our new products will receive marketing support like never before as we tell our consumers about how we offer a full range of unique, delicious foods for all occasions at the highest quality.

**Our Performance**

In all, everyone associated with The Schwan Food Company and its subsidiaries delivered a strong performance in 2009. It was a strong year for us, but we are committed to even greater achievements through strong growth. To get there, we will focus considerable resources and efforts in four areas: consumer-based innovation, building our brands through impactful marketing, advertising and selling campaigns, market expansion

and development in new markets, and continuing to evolve the operations of our home-delivery business to be a truly consumer-driven business for the future.

We have entered a time of great change at The Schwan Food Company — positive change that will enrich the lives of our customers, our employees, our shareholders and the communities in which we live and work. This evolution remains rooted in our foundation. We will continue to be guided by our values of growth, hard work, helping one another, enthusiasm and integrity as we work to bring our company to a new level of prosperity, striving every day to be the best branded frozen-food company on the face of the earth.



Gregory D. Flack  
CEO, President  
and Chief Operating Officer



# THE YEAR in Review

**The Schwan Food Company** (hereafter “Schwan” or “the company”) is among the world’s leading producers, distributors and marketers for premium-quality frozen foods. Based in Marshall, Minnesota, for 57 years, the company produces some of the world’s most respected brands, including: *Schwan’s*® products, *Red Baron*®, *Freschetta*®, *Tony’s*® and *Big Daddy’s*® pizza, and *Mrs. Smith’s*® and *Edwards*® desserts. Schwan is a multibillion-dollar private company with 18,000 subsidiary employees and millions of customers in three distribution channels — home delivery, retail club and grocery and food service. The company also manufactures frozen foods, with major production facilities in Minnesota, Kansas, Kentucky, Georgia, Oklahoma, Florida, Pennsylvania and Texas.



## Goodbye, Alfred, and thanks for the memories

In January, Alfred Schwan, who had served in leadership roles with the company since 1964, retired as the company’s chairman of the board. Mr.

Schwan was the older brother of the company’s founder, Marvin Schwan, and he played a major role in the company’s involvement in frozen pizza. The board of directors named Allan Schuman to serve as the non-executive chairman of the board. Mr. Schuman has served on the board of directors since 2001.

## Being the Best

In 2009, the company kicked off a new three-year strategy that focused on making The Schwan Food Company the best provider of frozen foods in the industry. The strategy focuses on being the best in three areas: People, Products and Performance.

## Focusing on innovation

The company introduced more than 200 new products in 2009, representing a 90 percent increase in the number of new products introduced in the prior year. The amount of sales generated from new products in 2009 represented more than 17 percent of total revenues, and the value of the company’s new-product pipeline has improved 80 percent.



## Telling consumers our story

Schwan’s Home Service, Inc., the company’s home-delivery business, found creative new ways to tell consumers about its products and services. The *Schwan’s*® brand became a popular item for reality TV viewers in 2009. *Schwan’s*® products were featured on shows like “The Celebrity Apprentice” and “Top Chef,” gaining exposure to millions of viewers throughout the United States. In fact, the winning food item on “Top Chef,” Polenta with Braised Meatballs, was served to consumers through the company’s home-delivery service.

## Meeting Jennifer

Schwan's Consumer Brands North America, Inc. dedicated record levels of resources into telling consumers about its products. For *Freschetta*® pizza, which rolled out a new brand look in 2009, advertising focused on a brand hero named Jennifer. In a new television advertisement, Jennifer represented a mom who was simply looking for a better pizza in the frozen-food aisles of a grocery store. Major advertising campaigns also rolled out for Consumer Brands products such as *Edwards*® new à la mode desserts and *Red Baron*® Fire Baked Crust pizza.

## Providing value safely

Schwan's Global Supply Chain, Inc., the manufacturing and logistics arm of The Schwan Food Company, had a tremendous year in 2009, improving in areas such as financial performance, employee safety, driving down costs and improving product quality. The organization reduced its costs by more than \$40 million, helping the company keep costs low for consumers. Additionally, employee safety at the company's manufacturing facilities improved by 16 percent over prior year and by 26 percent over the past three years.

## Where we rank

*Forbes* magazine lists Schwan among America's largest privately held companies — 114<sup>th</sup> overall, third in Minnesota, and first in the "dairy products" industry. Schwan's Home Service, Inc., the company's flagship business, is the nation's leading provider of direct-to-home food delivery.

## Dine In. Chill Out.™

Schwan's Home Service, Inc. rolled out a new brand look this fall in the southeast region of the United States. The new look will appear on promotional materials, delivery trucks and new corporate apparel and is



expected to roll out across the United States over a two-year period. The business unit is also perfecting a new consumer driven business model in the southeast that moves Schwan's Home Service closer to achieving its mission of giving consumers what they want, how they want it and when they want it.



## The year of Tony's® pizza

The *Tony's*® pizza brand increased its market share in 2009 by offering a quality pizza at a greater value to consumers. Several factors helped the growth of *Tony's* pizza, including fresh packaging, an on-pack bowling promotion and coupon, and the introduction of *Tony's* Crispy Crust — a new party pizza with a baked crust.

## Partnering with Gallup on employee engagement

The company partnered with Gallup to measure and improve employee engagement at the company over a three-year period. This summer, about 92 percent of all employees participated in the company's first employee-engagement survey. In the fall, managers spent time developing impact plans to increase the engagement levels of team members throughout the organization.

## We know pie

Once again, the company's brands won big at a national pie competition. Employees from the company's bakery teams won six blue ribbons at the

2009 National Pie Championships in Celebration, Florida. The ribbons were awarded in the gourmet-pie and single-serve categories of the commercial division. In the gourmet-pie category, the awards went to *Mrs. Smith's* Cinnamon Apple Crumb Pie, *Mrs. Smith's* Peanut Butter Pie, and for the fifth-consecutive year, *Edwards* Key Lime Pie. In the single-serve category, awards went to *Edwards* Crème Pie made with \**Reese's*® candy, *Edwards* Lemon Meringue Pie and the newly introduced *Edwards* Cherry Mini Pie.

## We offer sushi

Schwan's Food Service, Inc. began offering sushi in schools and other food-service venues through its new *Rising Sun*™ brand. Sushi was also offered to the customers of Schwan's Home Service, Inc.

\**Reese's*® candy is a brand of The Hershey Company

## The Schwan Food Company

**CEO:** Greg Flack

**Founder:** Marvin M. Schwan

**Headquarters:** Marshall, Minnesota

**Established:** 1952

**Revenues:** Excess of \$3 billion

**Subsidiary employees:** 18,000

**Fleet:** Nearly 6,000

**Locations:** Nearly 600

**Core business:** Branded frozen food

**Core Values:** Growth, Hard Work, Helping One Another, Enthusiasm, Integrity

**Key market channels:** Schwan's Home Service; Schwan's Consumer Brands; Schwan's Food Service



# SCHWAN'S

## Home Service, Inc.

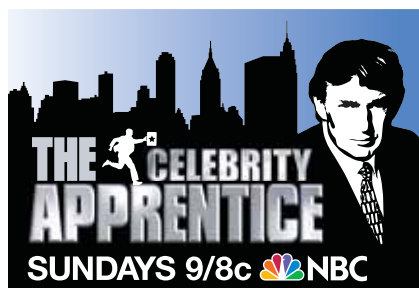
**Schwan's Home Service, Inc.** is the largest direct-to-home provider of frozen foods in the United States. With more than 350 products, Schwan's Home Service provides families with great-tasting, easy-to-make foods for every occasion.

After 57 years of serving U.S. families, millions of customers have grown accustomed to the quality of service expected from the customer service managers of The Schwan Food Company's flagship business. Customers of Schwan's Home Service not only expect top-quality products from *Schwan's*® fine foods, but they also receive the personal touch of having those products hand-delivered to their front doors. Every day, thousands of customer service managers step from their propane-powered *Inca Gold*® delivery trucks to deliver the foods that families want most.

Schwan's Home Service employees worked hard and delivered profitable results in 2009 by focusing on people, products and performance. More specifically, the business unit delivered results by improving technology, making workforce improvements, seeking out new business partnerships, offering new products that win with

consumers and working on initiatives that build upon the popularity of the brand and attract new customers.

The *Schwan's*® brand became a popular item for reality TV viewers in 2009, with appearances on shows like NBC's "The Celebrity Apprentice" and Bravo's "Top Chef."



### Delivering performance through innovation

In 2009, Schwan's Home Service strengthened its revenues and delivered a double-digit improvement in profits while adhering to its strict guidelines for product quality and providing consumers with the "*Schwan's*™ experience."

A portion of 2009's success is attributed to new product launches designed to offer customers convenient and delicious foods that can only be found at Schwan's Home Service. The business unit launched 31 new products in early 2009 under the *Schwan's*® and *LiveSmart*™ brands and kept the momentum going throughout the year. Sales for new *Schwan's* products amounted to more than 20 percent of total revenue.

Some of the more successful new products launched in 2009 included *Schwan's* Oven Roasted Chicken Bites, *Schwan's* Oven Roasted Baby Bakers, *Schwan's Pizzeria Style*™ Mega Meat Pizza, *Schwan's* Stuffed Chicken Parmesan and *Schwan's* Fried Green Beans.

The company's future success with new products will depend on its ability to meet the nutrition and convenience

needs of its consumers. Extensive research was conducted in 2009, identifying specific areas in which Home Service can develop products that solve the problems of U.S. families.

### Telling our story

More than ever before, Schwan's Home Service sought creative methods for telling consumers about its products and services. The *Schwan's*® brand became a popular item for reality TV viewers in 2009, with appearances on shows like NBC's "The Celebrity Apprentice" and Bravo's "Top Chef." Such initiatives helped increase the visibility of the company's products with millions of viewers throughout the United States. In fact, the winning food item on "Top Chef" — Polenta with Braised Meatballs — was offered to consumers through the company's sales force.

Schwan's Home Service also found business partners in 2009 that helped to further business objectives and, in

some instances, helped benefit a good cause. The company partnered with *Fresco by Scotto*® restaurant to offer premium pasta products on *Schwan's* trucks. The Scotto family frequently talked about the products on their segment of NBC's "Today Show." In other partnerships, Schwan's Home Service teamed with country music artist Clint Black to raise money for Rett Syndrome research and with racing legend Jeff Gordon to raise money for pediatric cancer. The company also continued its partnership with Nutrisystem, Inc., to offer great-tasting, quality frozen foods to Nutrisystem customers who also happened to be looking to lose a few pounds.



In the fall, Schwan's Home Service unveiled new branding that will roll out in the southeast region of the United States. The new look will appear on delivery trucks, semis, promotional materials and even corporate apparel. The new image has been designed to convey the company's message of freshness, quality and friendliness.

### Advancing technology to boost sales

Schwan's Home Service invested in new technology in 2009 that will help the company improve its service to consumers. In September, the business unit rolled out a new tool that arms the sales force with information that will help them make better product suggestions to consumers. This new technology can also be used to enhance a consumer's online experience.

In addition to serving customers at their doors, Schwan's Home Service is working to revolutionize the consumer's shopping and service experience





online at Schwans.com. The Web site experienced some success in converting Web site visitors into purchasing customers. In January and March, Schwans.com was named the No. 1 online retailer at converting Web site visitors. Nielsen Online tracking found that 52½ percent of visitors purchased products, which is higher than the normal purchase rate at other companies. In October, the Web site also received a facelift to further enhance the shopping experience.

New technology is also helping the business unit reduce costs with the operation of its fleet. The company is moving toward replacing its fleet with a vehicle that's 6,000 pounds lighter than the medium-duty vehicles used today. These lighter trucks will improve fuel efficiencies and reduce carbon emissions. The company will also continue to use liquefied propane gas to fuel the majority of its fleet.



**What, How and When**

When it comes to winning in the marketplace, Schwan's Home Service has committed itself to a consumer-centric vision. In this vision, the company's food-delivery business will commit itself to providing the consumer what she wants, how she wants it and when she wants it. The success of this long-term vision will depend on its ability to build superior consumer knowledge and use that knowledge to deliver innovation. Additionally, the business unit will work to provide a consistent brand experience, revolutionize the consumer Web experience, focus on developing its people, optimize its sales routes

and deliver cost improvements to fund future investments in growth.

Ultimately, Schwan's Home Service's future success depends on its connectivity and relevance to consumers. Moving toward a new, consumer-centric business model will help the company increase service levels and better meet the needs of millions of customers, plus enable the company to add millions more.

**Schwan's Home Service, Inc.**

**President:** Scott McNair

**Delivery trucks:** About 5,000, 90 percent of which run on propane.

**Locations:** Nearly 500 in 48 states

**Products:** More than 350 in all categories

**Brands:** *Schwan's®* and *LiveSmart™*

*Edwards®* Singles à la Mode  
Hot Turtle Brownie with  
Creamy Ice Cream



# SCHWAN'S

## Consumer Brands North America, Inc.

**Schwan's Consumer Brands North America, Inc.** develops, markets and sells fine frozen-food products to retail-food stores throughout North America. Through the years, Schwan's Consumer Brands has built respected brands that people trust and count on for quality, convenience and flavor. Some of those brands, which can be found in more than 50,000 retail outlets, include *Red Baron*®, *Freschetta*® and *Tony's*® pizzas, *Mrs. Smith's*® and *Edwards*® desserts, *Asian Sensations*® snacks and *Larry's*® potato side dishes.

In 2009, Consumer Brands worked collaboratively with its business partners to deliver record sales and earnings growth. This was done through innovation, higher levels of advertising, improving supply-chain efficiency and continued expansion into new markets.

### **A taste of something fresh**

Schwan's Consumer Brands focused intensely in 2009 on introducing fresh concepts into the marketplace. In the spring, the business unit launched *Edwards Singles à la Modes* — a new-to-the-world innovation that exceeded expectations throughout the year.

*Edwards Singles à la Modes* offer an innovative twist to a tried-and-true favorite. Take a hot brownie or pie, top it with cold creamy ice cream, and

In the spring, the business unit launched *Edwards Singles à la Modes* — a new-to-the-world innovation that exceeded expectations throughout the year.

the result is the perfect combination of hot and cold, creamy and crunchy, mixing together to tantalize the taste buds. The new concept was packaged together for sale in the frozen aisles in grocery stores. The product offers a microwavable brownie or pie along with

a cup of ice cream produced by the company's ice cream plant. The initial flavors included Fudge Brownie with Creamy Ice Cream, Hot Turtle Brownie with Creamy Ice Cream and Hot Apple Crisp with Creamy Ice Cream.

According to Nielsen data, this new innovation helped the *Edwards* brand continue to surge in the market place. The brand is already No. 1 in frozen desserts and its market share increased with the help of both single-serve products and whole pies.

When talking about Schwan's Consumer Brands' products, pizza usually comes to mind as the business markets some of the best-known brands in the industry. The business continued to introduce new concepts in the pizza category. One of its more successful new products included *Tony's Crispy Crust*, which appealed to consumers looking for a tasty frozen pizza at great value. The new product, which features a baked crust and 0 grams of trans fats per serving, rolled out in cheese, pepperoni and supreme flavors.

### **Communicating quality to consumers**

In addition to achieving a record financial performance in 2009, Schwan's Consumer Brands invested

heavily in telling consumers about its products. Campaigns sought to connect with consumers through traditional media as well as new digital formats. The business's sales force also boosted efforts to enhance in-store engagement with shoppers.

Two of the business unit's largest brands — *Red Baron* and *Freschetta* pizza — launched advertising campaigns in the fall. *Freschetta* pizza worked to reach its brand hero, "Jennifer." Jennifer represents a mom simply looking to buy a better pizza in the frozen-food aisles of a grocery store. In the advertisement, she asks for a pizza with real cheese, dough that rises naturally, premium meats, sauce made from real tomatoes and, ultimately, a pizza that her family will love. In the end, Jennifer is left with only one choice — *Freschetta* Naturally Rising pizza.

*Red Baron* pizza also returned to the TV screens of consumers throughout the United States to help promote its Fire Baked Crust pizza. The *Red Baron* ad tells consumers to get ready for



pizzeria-style pizza from "your own oven."

*Edwards* desserts entered the mix with an ad touting its à la mode products. The *Edwards* advertisement features consumers fighting for the products with dueling forks.

*Tony's* pizza focused its efforts on in-store promotions and on-package coupons. One creative effort with the *Tony's* promotion offered on-package coupons for a free game of bowling, redeemable at more than 2,000 Brunswick member bowling centers in the United States. To help with the



promotion, the brand enlisted bowling's reigning first family, Chris and Lynda Barnes, along with their twin sons. Chris and Lynda have both won the most prestigious titles in professional bowling.

Sales teams had fun with the bowling promotion as well, with many setting up bowling lanes in grocery store aisles and giving away free games of bowling to anyone who could bowl a strike.

### Improving supply chain efficiency

Efforts by teams throughout The Schwan Food Company to become more efficient in producing, transporting, delivering and storing products helped the company achieve outstanding financial results and increase service levels to customers. Schwan's Consumer Brands achieved record service rates to their customers and reduced inventory levels at the same time. These efforts are part of the company's plan to reduce costs in order to increase investments in future growth.

One effort to improve on-the-road efficiencies also helped to reduce the use of fuel and decrease emission levels. Schwan's Consumer Brands purchased 250 new direct-store delivery trucks that will reduce refrigeration fuel consumption by 90 percent and will save the company about \$3 million in operating expenses.

### Poised for growth in 2010

2009 proved a challenging year for the retail industry. A weak economy is affecting consumer-purchasing trends, and manufacturers are experiencing a wide fluctuation in the cost of raw materials. However, Schwan's Consumer Brands was able to adjust with consumers' needs and deliver a tremendous year, making substantial progress in building platforms for long-term growth. Schwan's Consumer Brands exits 2009 with strong momentum, growing revenues and well-positioned for success in 2010.



Growth in the upcoming year will be generated through consumer-relevant innovation brought to market through the strength of the company's brands and supported with impactful consumer advertising. To make sure new consumers are reached through these efforts, the Schwan's Consumer Brands direct-store delivery system will focus heavily on in-store engagement. The goal is to carry the marketing message for the company's brands from the home right to the retail shelf.

### Schwan's Consumer Brands North America, Inc.

**President:** Mark Dalrymple

**Headquarters:** Bloomington, Minnesota

**Brands:** Red Baron®, Freschetta®, Tony's®, Minh®, Asian Sensations®, Sabatasso®, Mrs. Smith's®, Edwards® and Larry's® potatoes.

**Customers:** Food/Grocery retailers in North America



Freschetta Flatz™  
Buffalo Chicken

# SCHWAN'S

## Food Service, Inc.

**Schwan's Food Service, Inc.** markets and distributes frozen-food products to public and private schools, universities, health-care facilities, convenience stores and chain restaurants through more than 1,800 active distributors. Well-established product lines include frozen pies and desserts, Asian and Mexican ethnic specialties, pizza and sandwiches. With strong brands like *Big Daddy's*®, *Freschetta*®, *Tony's*®, *Minh*®, *Mrs. Smith's*® and *Holiday Foods*™, Schwan's Food Service is taking the lead in providing versatile meal solutions to customers who value quality and service.

In 2009, Schwan's Food Service delivered record profitability, experiencing growth in the school food-service sector, top restaurant chains and with the company's *Holiday Foods*™ business, which provides high-quality hors d'oeuvres primarily to the hotel industry. Overall sales were impacted by Schwan's Food Service's efforts to exit non-profitable business and by a food-service industry that was negatively impacted by a weak economy in 2009.

Food Service's customers continue to rank the company among the elite food providers to schools. The business unit was recently ranked No. 4 in Canondale's *FoodServiceElite* report in the non-commercial category.

### **The *Big Daddy's*® brand gets bigger**

Launched in 2005, *Big Daddy's*® pizza has quietly become one of the company's more successful new brands. *Big Daddy's* pizza offers students and school cafeteria managers a restaurant-quality slice that can compete with pizzas from national restaurant chains. The brand also

The business unit also introduced *Freschetta Flatz*™, a new flatbread, pizza-style product that comes in two new varieties and can be served as a flatbread, sandwich or pizza.

awards points to schools that buy the product. The points can be redeemed for *Big Daddy's* branded materials such as kitchen tools, insulated delivery bags, countertop service stations, kiosks, display cases and marketing kits.

*Big Daddy's* pizza continues to play a key role in Schwan's Food Service's success. Overall sales to schools outpaced the industry with the help of the brand. Future growth of the *Big Daddy's* brand will depend on its continued innovation. After introducing successful concepts such as *Big Daddy's* Rolled Edge Harvest pizza and Panini sandwiches in 2008, the brand added pre-sliced pizza and calzones to its offerings this year.

*Tony's* pizza also continues to perform well in schools, delivering successful line extensions with *Tony's*® *SmartPizza*® products. Over the last decade, *SmartPizza* products have set a new industry standard as it relates to meeting nutritional requirements for schools. In 2009, the *SmartPizza* line introduced French Bread pizzas. Other top-performing new products under the *Tony's* brand include a stuffed-crust pizza and a 5-inch crispy-crust pizza.



**Going beyond pizza, pies and egg rolls**

For years, Schwan's Food Service's main areas of focus have been in delivering high-quality pizzas, pies and egg rolls. The business spent a considerable amount of resources in 2009 delivering products that went beyond that focus. One of its most promising ventures in 2009 came from

a new brand, *Rising Sun™* sushi. When most think of a typical school lunch menu, food selections such as Sloppy Joes, chicken nuggets and pizza would be the first items to come to mind. However, sushi became a surprise hit for Schwan's Food Service. The company's School Food Service team began offering fully cooked sushi

to schools across the country in 2009, and the popularity of the product grew rapidly.

Part of the reason for the product's quick success is because the idea for it came from the end-users of the product — the students. The idea for the product began surfacing in focus groups when students were asked about what they would like to see on school lunch menus. The success of sushi in schools encouraged sales and marketing staff to develop plans for a sushi product that can be sold in other venues as well, including colleges, universities, hospitals, convenience stores and entertainment venues.



Food Service's efforts to grow business outside of its core food categories will continue in 2010. The business unit invested in new manufacturing capabilities that will enable the company to produce enrobed one- and two-bite foods. The technology will help Food Service as it looks to expand in new markets.

The business unit also introduced *Freschetta Flatz™*, a new flatbread, pizza-style product that comes in two new varieties and can be served as a flatbread, sandwich or pizza. Marketing for the product is being focused in colleges and universities, health-care cafeterias, convenience stores and restaurant chains.

*Holiday Foods* expanded distribution in 2009 with solid sales growth in the Midwest and South Central United States, as well as leveraging their Avendra relationship to grow sales within the Marriott and Hyatt Hotel groups.

In the dessert category, Food Service continued to have success introducing new products to restaurants. A few of the top-selling items have been Strawberry Swirl Cheesecake and Cookie Dough pie. A few co-branded products like the *Butterfinger®* Pie Wedge and the *Cinnabon®* Cheesecake also performed well.

### **Working toward ending hunger**

In 2009, Schwan's Food Service continued to partner with Global Child Nutrition Foundation to help raise awareness and funding for sustainable school meal programs in developing countries. Employees with Schwan's Food Service helped create a marketing program called "Change Our World" to address the subject of global hunger with K-12 children.

Schwan's Food Service made an initial donation of \$500,000 to the fund and then raised another \$200,000 through promotions in which 25 cents was donated for every case of product sold.

This spring, the company also offered students the opportunity to help raise awareness for global hunger while showing off their talent in the "Rock Our World — Fight Against Global Hunger" music contest. During the contest, students wrote original songs and then videotaped themselves performing their creations. The songs were then



uploaded to SchoolTube, where family and friends could rate the video. The top-rated songs were judged by a School Nutrition Association panel. The winners of the grand prize were flown to Las Vegas to perform their winning song during the association's annual meeting.

### **Focusing on market growth**

The economic recession posed significant challenges for Schwan's Food Service as the downturn in the global economy forced consumers to tighten their belts. During 2009, more consumers turned back to cooking and reduced their spending and consumption of food away from home. This had a significant impact on food-serving establishments such as casual dining, sit-down restaurants and business-dining cafeterias.

However, Schwan's Food Service grew its market share more quickly than the overall food-service industry and took business actions that helped increase the overall profitability of the business unit. This will help fund initiatives that will accelerate revenue growth in 2010 and beyond. Schwan's Food Service's leaders see tremendous opportunities

for growth within the food-service industry as the business unit looks to expand to new categories and meet its business objectives by continuing to introduce innovative products that consumers crave.

The business unit invested significantly in the future growth of its business with chain restaurants, and teams from research and development, operations and sales have been dedicated to the future success of this category.

\*Butterfinger® candy is a trademark of Société des Produits Nestlé S.A.

\*\*Cinnabon® is a trademark of Cinnabon, Inc.

## **Schwan's Food Service, Inc.**

**President:** Mark Jansen

**Headquarters:** Marshall, MN

**Brands:** *Big Daddys®*, *Freschetta®*, *Tony's®*, *Mrs. Smith's®*, *Minh®*, *Rising Sun™*

**Customers:** Schools, restaurants, universities, cafeterias, the health-care industry, military, convenience stores.



Producing a great pizza is just one of the many manufacturing capabilities of Schwan's Global Supply Chain, Inc. The team also has expertise in producing desserts, ice cream, hand-held products and Asian-style foods.

# SCHWAN'S

## Global Supply Chain, Inc.

**Schwan's Global Supply Chain, Inc.** provides a wide range of creative and cost-effective answers for their customers' supply-chain needs through the operation of 12 manufacturing facilities and four major distribution centers in the United States. The group offers a wide range of supply-chain services to its three primary customers: Schwan's Home Service, Inc., Schwan's Consumer Brands North America, Inc. and Schwan's Food Service, Inc. Food products manufactured by Global Supply Chain include pizza, ice cream, egg rolls, desserts, appetizers, handheld products and side dishes.

In 2009, Schwan's Global Supply Chain made tremendous progress in its mission to be the best provider of frozen-food, supply-chain solutions in the world. The organization delivered a record year for financial performance. The overall performance of manufacturing and warehousing facilities throughout the organization exceeded goals in all areas, including: reducing overall costs, improving employee safety, enhancing product quality and meeting goals in areas of production and transportation.

### **Employees delivered the difference**

Schwan's Global Supply Chain kicked off 2009 with tough goals to reduce costs and continue to deliver the value and quality that meet the standards

of The Schwan Food Company. The 5,300-plus employees working at Global Supply Chain facilities helped deliver tremendous results, turning innovative ideas into high-quality products and reducing supply-chain costs by more than \$40 million. These efforts were made possible, in part,

Global Supply Chain employees found methods that helped them perform 3 percent better than planned for the costs of converting raw materials into finished products.

through initiatives that encouraged creative thinking and applying "Lean" concepts to manufacturing and logistics processes.

New initiatives helped deliver a 2.7 percent improvement in material usage. Storage and handling costs were reduced 9 percent at distribution centers. Additionally, Global Supply Chain employees found methods that helped them perform 3 percent better than planned for the costs of converting raw materials into finished products.

Schwan's Global Supply Chain departments also worked with cross-functional teams throughout The Schwan Food Company to bring innovative ideas to life, whether it was producing new products with in-house capabilities or using their expertise to find the appropriate business partner to manufacture a new concept.

Some of the more successful new products introduced in 2009 include *Edwards*® Singles, *Tony's*® Crispy Crust and an Apple Streusel sold by Schwan's Home Service, Inc.

### **Working in a safe environment**

Employees made tremendous progress in 2009 enhancing safety.

Overall, Global Supply Chain's goals for reducing recordable injuries were exceeded by 21 percent.

The effects of continuously working to provide the safest work environment possible were felt throughout the organization.

The Minnesota Safety Council recognized three facilities in Marshall, Minnesota, for excellence in workplace safety and health by awarding them with the Governor's Safety Award. Those facilities include a beverage plant, a dry storage facility and an employee store. Since 1934, the Governor's Safety Award in Minnesota has spotlighted employers with excellent safety records. Since 1998, eight Schwan facilities located in Minnesota have received the award.

### Focusing on employee engagement

Like other subsidiaries of The Schwan Food Company, Schwan's Global Supply Chain has begun the process of measuring and enhancing employee engagement. Studies consistently show that organizations with highly engaged employees tend to perform better in key areas such as employee satisfaction, customer satisfaction and financial performance.



The new engagement programs complement current activities occurring with continuous-improvement projects and "Lean" initiatives that encourage team members throughout the organization to share ideas and participate in process improvement initiatives that deliver results. Collectively, these projects have helped deliver more than \$1 million in savings and build leadership skills at all levels.

Employees have also joined together to improve in areas of sustainability. With a focus on packaging, the company is reducing the amount of materials it uses in an effort to save trees and reduce the impact to landfills. One example was a project that switched the packaging for the *Red Baron* Singles Deep Dish variety pack from corrugate cardboard to a paperboard substrate, saving the equivalent of 1,130 trees annually.





Efforts are also underway to reduce water and energy usage throughout the company. The Salina plant received recognition in 2009 for its efforts to reduce water usage by nearly 35 million gallons annually. The Salina team also reduced energy through the use of an “iButton,” a device that collects temperature data. The iButton, which is about the size of a dime, was used to lower the temperature of refrigeration trucks, conserving about 8,600 gallons of fuel annually.

In 2009, the company conducted energy audits at all of its manufacturing facilities and found cost-effective projects that will save the company

millions of dollars every year. The goal in 2010 is to reduce energy usage by 7 percent.

#### **Ready for growth**

In 2009, Schwan's Global Supply Chain stripped costs out of the production system and drove conversion costs down significantly. Schwan's Global Supply Chain stands ready to produce quality frozen-food products at an optimized value for its customers and for consumers. Manufacturing and logistics facilities will continue to find ways to reduce costs in the years to come; however, the plants will remain focused on quality.

### **Schwan's Global Supply Chain, Inc.**

**President:** Douglas Olsem

**Headquarters:** Marshall, Minnesota

**Production facilities:** 12

**Storage facilities:** 29

**Major locations:** Florida, Georgia, Kansas, Kentucky, Minnesota, Oklahoma, Pennsylvania, Texas.

**Production specialties:** Pizza, pie, ice cream, egg rolls, side dishes, appetizers, and handheld products.

# 2009

## Corporate Initiatives

### Ensuring a high-performance culture

In 2009, the company embarked on a world-class, employee-engagement initiative, partnering with Gallup to measure and drive engagement over the next three years. The company achieved a 92 percent participation rate with its first company-wide employee survey, and managers teamed with individual contributors to build impact plans to improve engagement. Studies show there is a direct correlation between employee engagement levels and maintaining a high-performance culture. Here are a few other outstanding corporate initiatives:



### Encouraging health and wellness

With a focus on health and wellness, the company launched an initiative to have a tobacco-free workplace. The policy prohibits tobacco use on all company-owned property. To help people quit using tobacco, Schwan offered free tobacco cessation resources to all employees, including over-the-counter nicotine replacement drugs and professional coaching. The company also held programs throughout the year to encourage weight loss and physical fitness.

### Rewarding those who achieve high performance

In March, the company launched the High Performance Recognition Award, which was given to hundreds of recipients throughout the company. The performance-based award recognizes and rewards employees who deliver results that help the company achieve its objectives.

### Staying on the cutting edge of technology

The company's Information Services Department works with Schwan subsidiaries to help them achieve their business objectives and optimize financial performance. In 2009, the team helped enable Schwans.com to handle excessive Web traffic for special promotions and advertisements, helped Schwan's Food Service, Inc. create a new system for analyzing marketing investments, and assisted Schwan's Consumer Brands with implementing a system that drives efficiencies in order processing.

### Making better-for-you products

Schwan's Research and Development, Inc. helped reduce sodium levels in Schwan's Food Service pizza by nearly 10 percent over a two-year period. Additionally, Schwan's Home Service continues to develop more healthful products under its *LiveSmart™* brand. The business currently has about 120 *LiveSmart™* products.

### Aligning to our goals

The company adopted a new online performance management system that helps ensure that everyone is aligned to the company's strategic objectives. The system was rolled out for salaried employees in 2009 and will be extended to more employees in 2010.

### Doing our jobs with integrity

Completing our tasks and conducting business every day with integrity continues to be the foundation of the company's core values. That commitment starts with the board of directors and executive committee members. The company maintains a strong ethics program that requires continuous ethics training. In 2009, more than 96 percent of the company's employees completed annual ethics training, and more than 99 percent of management completed the company's ethics certification.

# 2009

## Enriching Lives

**At The Schwan Food Company**, we believe in integrity, helping one another and striving to improve the quality of life of employees and the communities where they live and work. Here are a few of our efforts in 2009:

- Since 2000, the company and its subsidiaries have donated more than \$2.2 million to local chapters of the United Way.

- Schwan's Food Service, Inc., in partnership with the Global Child Nutrition Foundation, raised awareness and funding for sustainable school meal programs in developing countries. Food Service made an initial donation of \$500,000 to the cause and raised another \$200,000 through special promotions. Schwan's Food Service created a marketing campaign called "Change Our World" to help address the subject of global hunger with K-12 children. This campaign also included a "Rock Our World" initiative, which featured a contest for school students to write and perform a song about global hunger.

- The Schwan Food Company continues to support education-based groups such as Students in Free Enterprise and scholarship programs at Southwest Minnesota State University.

- In Marshall, Minnesota, employees have donated more than \$600,000 since 1999 to local charities

through its Jean Day program. The Jean Day program allows employees to wear jeans if they donate a dollar to a local charity.

- Schwan's Home Service donated more than 5,000 ice cream novelties to the Minnesota Special Olympics event this year.

- In 2009, the company recycled 10,214 tons of cardboard, 1,022 tons of plastic and aluminum and 114 tons of glass. The company's subsidiaries also found ways to reduce their usage of packaging materials and became more efficient on the road and in manufacturing facilities. For more information, see the company's sustainability report, which will be published in early 2010 on [www.theschwanfoodcompany.com](http://www.theschwanfoodcompany.com).

- The Schwan Food Company sponsors the Schwan's USA CUP soccer tournament, the largest youth soccer tournament in the western hemisphere. About 13,000 athletes from 840 teams participate in the event.

- Through its *Schwan's Fundraising*<sup>®</sup> program, Schwan's Home Service, Inc. has partnered with charities throughout the United States to help raise funds. Some of the major partnerships include:

- Working with Clint Black to raise money for International Rett Syndrome Foundation in Home Service's South Region.
- Worked with the Lupus Foundation of America this summer to raise funds.
- Conducted more than 200 sales events in Texas to help raise money for Susan G. Komen Foundation. A percentage of the proceeds raised went to breast cancer research.

- Schwan's Home Service partnered with racing legend Jeff Gordon to raise money to fight pediatric cancer. The partnership included ice cream sold in a Jeff Gordon ice cream tin, with a percentage of the proceeds going to The Jeff Gordon Foundation.



# 2009

## Board of Directors

**Allan Schuman**

Chairman of the Board  
Chairman Emeritus,  
Ecolab Inc.  
*Class III*

**Gregory D. Flack**

CEO, President and  
Chief Operating Officer  
The Schwan Food Company  
*Class II*

**G. Michael Durkin Jr.**

President, North America Field  
Operations, Pepsi Beverages Company  
*Class III*

**Barbara Fitzgerald**

Retired Senior Vice President  
PetSmart, Inc.  
*Class III*

**David Kidwell**

Dean Emeritus  
Curtis L. Carlson School of  
Management,  
University of Minnesota  
*Class III*

**Don Miller**

Retired Vice President and CFO,  
The Schwan Food Company  
*Class III*

**Jeannine Rivet**

Executive Vice President,  
UnitedHealth Group, Inc.  
*Class III*

**Lorrie Schwan-Okerlund**

President, Designers Ltd.  
Daughter of The Schwan Food  
Company's founder  
*Class I*

**Patrick Bowe**

Corporate Vice President  
Cargill, Incorporated  
*Class III*

**Steven Sjoblad**

Chief Executive Officer,  
Captira Analytical  
Executive Vice President, Intersection  
*Class III*

*Class I designates lineal descendant  
of Marvin Schwan.*

*Class II designates an employee  
of a Schwan subsidiary.*

*Class III designates an outside member.*



*Pictured from left to right: Don Miller, G. Michael Durkin Jr., Patrick Bowe, Jeannine Rivet, Gregory D. Flack, Allan Schuman, Lorrie Schwan-Okerlund, Steven Sjoblad, David Kidwell, Barbara Fitzgerald*

# 2009

## Executive Committee

**Gregory D. Flack**

CEO, President and  
Chief Operating Officer

**Mark M. Dalrymple**

President of Schwan's Consumer  
Brands North America, Inc.

**Brian R. Sattler**

Executive Vice President of Corporate  
Administration and General Counsel

**James P. Dollive**

Executive Vice President of Finance  
and Chief Financial Officer

**Mark D. Jansen**

President of  
Schwan's Food Service, Inc.

**Scott F. Peterson**

Executive Vice President and Chief  
Human Resources Officer

**Scott D. McNair**

President of  
Schwan's Home Service, Inc.

**Douglas J. Olsem**

President of  
Schwan's Global Supply Chain, Inc.



*Pictured from left to right: Mark D. Jansen, Mark M. Dalrymple, James P. Dollive, Scott D. McNair, Gregory D. Flack, Douglas J. Olsem, Brian R. Sattler, Scott F. Peterson*

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*The* **SCHWAN**  
FOOD COMPANY

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