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Interstate Bakeries

Interstate Bakeries Corporation is a wholesale baker and distributor of fresh baked bread and sweet goods (Wonder Bread, Hostess Twinkies). The company filed for Chapter 11 Bankruptcy on 9/22/2004. On December 10, 2004 Interstate Bakeries Corp., filed "Form 8K" containing preliminary un-audited info for the year ended May 29, 2004 and delayed filing its annual report, "Form 10K", citing pension accounting issues and asset impairment charges amid its bankruptcy proceedings.

Interstate Bakeries announced the following results before potential adjustments: (Year ended May 29, 2004) *1

- Net sales \$3,467,562,000
- An operating loss of \$(6,679,000) compared to the previous year's operating income of \$83,268,000
- A net loss of \$(25,678,000) compared to the previous years net income of \$27,450,000
- Adjusted EBITDA of \$101,427,000 compared to the previous year's \$191,946,000

IBCIQ reported a preliminary, un-audited net loss of \$(16,877,000) for the first quarter 2005 ending August 21, 2004 compared with net income of \$11,190,000 the previous year. Sales fell 2.3 percent to \$812 million. Adjusted EBITDA was \$11,408,000 compared to the previous year's 48,381,000. *2

* 1 Form 8K, DTD 12/10/2004 Exhibit 99.2

* 2 Form 8K, DTD 12/10/2004 Exhibit 99.2

The following schedule reconciles preliminary adjusted EBITDA for the year ended May 29, 2004 and May 31, 2003. *3

	(preliminary un-audited) Fifty-Two Weeks Ended (in thousands)	
	May 29, 2004	May 31, 2003
Net Income (loss)	\$(25,678)	\$27,450
Other income	(33)	(87)
Interest expense	36,583	40,262
Income tax expense (benefit)	(17,551)	15,643
Depreciation and amortization	96,040	95,177
Restructuring charges	12,066	9,910
Other charges	<u>0</u>	<u>3,591</u>
Adjusted EBITDA	<u>\$101,427</u>	<u>\$191,946</u>

The following schedule reconciles preliminary adjusted EBITDA for the twelve weeks ended May 29, 2004 and May 31, 2003. *3

	(preliminary un-audited) Twelve Weeks Ended (in thousands)	
	May 29, 2004	May 31, 2003
Net Loss	\$(12,388)	\$(4,568)
Other income	(7)	(9)
Interest expense	8,385	10,090
Income tax	(6,235)	(3,080)
Depreciation and amortization	20,889	22,356
Restructuring charges	<u>7,911</u>	<u>3,460</u>
Adjusted EBITDA	<u>\$18,555</u>	<u>\$28,249</u>

The following schedule reconciles preliminary adjusted EBITDA for the twelve weeks ended August 21, 2004 and August 23, 2003. *3

	(Preliminary un-audited) Fifty-Two Weeks Ended (in thousands)	
	August 21, 2004 (1)	August 23, 2003
Net Income (loss)	\$(16,877)	\$11,190
Other income	(149)	(8)
Interest expense	8,770	8,865
Income tax expense (benefit)	(9,955)	6,460
Depreciation and amortization	21,457	21,242
Restructuring charges	8,162	632
Adjusted EBITDA	<u>\$11,408</u>	<u>\$48,381</u>

Recent Events

Recent 13G filings show investors taking positions in the common stock of IBCIQ. On January 20, 2005 Judge Jerry Venters granted approval for the committee representing stockholders to hire lawyers and financial advisers. On January 28th the U.S. Securities and Exchange Commission issued a formal order of investigation of the Company. The SEC probe concerns, "the manner for setting its workers compensation reserves and other reserves." *4

Recommendation

In our report dated 10/6/2004 we recommended that institutional investors consider Interstate Bakeries 6% convertible debt due 8/15/2014 priced at 85. We are formally dropping coverage of Interstate Bakeries Corporation 1) due to rapid price appreciation for the 6% convertible debt and 2) availability issues. Prior to discontinuing coverage, our rating on the convertible debt had been a BUY.

* 3 Form 8K, DTD December 10,2004, Exhibit 99.2

* 4 Press release, DTD 1/28/05

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Analyst Certification Requirement

- This communication accurately reflects the analyst's personal views about the company.
- The analyst has not and will not receive compensation with respect to the issuance of this report

RISKS

- The company is currently operating under Chapter 11 bankruptcy protection. The ability of the company to exit from bankruptcy is uncertain, as is the timing of the filing of a plan of reorganization.
- Estimates for the ultimate recovery value of the securities discussed may not be realized.
- Spencer Clarke LLC has not sought legal opinions regarding any topics in this report.
- Special risks are associated with hostilities, acts of war, or terrorist attacks.
- See SEC filings for additional potential risks.
- Combined risk factors make our estimates statistically unreliable.

Ratings Systems Explanation

Buy: We generally expect "BUY" rated investments returns to be $\geq +20\%$ from date of the original recommendation

Neutral: We generally expect "NEUTRAL" rated investments returns to deviate $-20\% \leq CMV < +20\%$ from date of the original recommendation

Sell: We generally expect "SELL" rated investments returns to be $> -20\%$ from date of the original recommendation

CMV: Current Market Value

Spencer Clarke LLC

Ratings Distribution as of 2/10/05

Number of Companies Percent of Total

	Number of Companies	Percent of Total
Buy	2	100
Neutral	0	0
Sell	0	0
Total	2	100

Companies for which **Spencer Clarke LLC** has performed Investment Banking services in last 12 month as of 2/10/05

Number of Companies Percent of Total

	Number of Companies	Percent of Total
Buy	0	100
Neutra	0	0
Sell	0	0
Total	0	100