

IN THE UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF MISSOURI
KANSAS CITY DIVISION

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In re:	:	Chapter 11
	:	
INTERSTATE BAKERIES	:	Case No. 04-45814 (JWV)
CORPORATION., <u>et al.</u> ,	:	
	:	Jointly Administered
Debtors.	:	
	x	

**STIPULATION AND AGREED ORDER AUTHORIZING INTERSTATE
BAKERIES TO HONOR CERTAIN CONVERSION RIGHTS UPON
FULFILLMENT BY CONVERTIBLE DEBT HOLDERS OF CERTAIN
CONDITIONS**

This matter comes before the Court on the motion (the "Motion") of R² Investments, LDC ("R²"), by and through their attorneys, Milbank, Tweed, Hadley & McCloy LLP, for entry of an Order (A) Confirming No Violation of Automatic Stay and (B) Directing Debtors to Comply with Indenture Conversion Provisions. Interstate Bakeries Corporation ("Interstate Bakeries") supports the relief requested in the Motion upon the terms and conditions set forth herein, and the Court finds as follows:

- A. (i) the Court has jurisdiction of the matters raised in the Motion pursuant to 28 U.S.C. §§ 157 and 1334; (ii) this matter constitutes a core proceeding pursuant to 28 U.S.C. § 157(b); (iii) the relief granted by this order is in the best interests of Interstate Bakeries, its estate and its creditors; and (iv) proper and adequate notice of the Motion and the hearing thereon has been given and no other or further notice is necessary;

- B. on September 22, 2004 (the "Petition Date"), Interstate Bakeries and certain of its affiliates (collectively, the "Debtors") filed voluntary petitions for chapter 11 protection with the United States Bankruptcy Court for the Western District of Missouri, Kansas City Division (the "Bankruptcy Court") pursuant to 11 U.S.C. §§ 101-1330 (as amended, the "Bankruptcy Code");

- C. Interstate Bakeries and certain of its affiliates (as guarantors), U.S. Bank National Association, as Indenture Trustee, and/or certain third parties entered into (i) that certain Indenture, dated as of August 12, 2004 (the "Indenture"), relating to Interstate Bakeries' 6.0% Senior Subordinated Convertible Notes due August 15, 2014 (the "Notes"); (ii) those certain Purchase Agreements relating to the Notes, dated as of August 11, 2004 (as to each, a "Purchase Agreement"); and (iii) those certain Registration Rights Agreements dated as of August 12, 2004 (as to each, a "Registration Rights Agreement");

- D. R² has acquired certain of the Notes;
- E. pursuant to Article XV of the Indenture, R² has asserted that the holders of the Notes (each, a "Noteholder" and, collectively, the "Noteholders'") have an unconditional right to convert their Notes into shares of Interstate Bakeries' common stock ("Conversion Stock"), subject to each Noteholder's compliance with the requirements set forth in the Indenture (the "Conversion Rights");
- F. R² has also asserted that the Noteholders may assert their Conversion Rights without violating the automatic stay imposed by 11 U.S.C. §362(a) and has sought in the Motion an order directing Interstate Bakeries to honor any such asserted Conversion Rights in accordance with the Indenture;
- G. Interstate Bakeries has asserted that a Noteholder may not enforce any asserted Conversion Rights or any other terms of the Indenture during the pendency of these cases absent entry of this Order;
- H. Interstate Bakeries is willing to allow Noteholders to exercise Conversion Rights if, but only if, such exercise and conversion cannot and will not directly or indirectly create or increase its liabilities to the detriment of its other stakeholders; and
- I. Interstate Bakeries and R² both believe that exercise of Conversion Rights by the Noteholders on the terms set forth herein will not directly or indirectly create or increase Interstate Bakeries' liabilities to the detriment of its other stakeholders

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED BY THE SIGNATORIES HERETO, AND ORDERED, ADJUDGED AND DECREED BY THE COURT, THAT:

1. A Noteholder may exercise its Conversion Rights, and Interstate Bakeries is authorized and directed to honor such exercise, only if the Noteholder has (i) complied with all of the provisions of Article XV of the Indenture including, without limitation, (x) being in compliance with the Conversion Limitation set forth in Article 15.1(b) of the Indenture and (y) having acknowledged and accepted that exercise of the Conversion Rights under this Order may, if applicable at the time of such conversion request, require the issuance of restricted stock bearing the legend required by Article 15.12 of the Indenture, and (ii) delivered to Interstate Bakeries an acknowledgment of and agreement to this Stipulation and Agreed Order (the "Conversion Compliance Certificate").

2. By executing and delivering to Interstate Bakeries a Conversion Compliance Certificate, substantially in the form annexed hereto as Exhibit "A," each Noteholder shall upon honor of its Conversion Rights by the Debtors:

(a) agree to be bound by each and every finding and provision hereof and submits to the jurisdiction of this Court regarding any dispute hereunder or relating in any way to the Conversion Rights and Conversion Stock issued in connection therewith.

(b) represent (as to paragraphs (i), (ii) and (iv)) and acknowledge that in connection with the exercise of its Conversion Rights:

(i) such Noteholder is a sophisticated investor with such knowledge, sophistication and experience in financial, business and investment matters so as to be capable of evaluating the merits and risks of the exercise of its Conversion Rights and has information concerning the business and financial affairs and condition of Interstate Bakeries and the other Debtors that it deems adequate to make an informed decision regarding the exercise of its Conversion Rights and the merits and risks of such exercise and the Conversion Stock;

(ii) such Noteholder has in fact evaluated at the time of the conversion the merits and risks of such exercise, the Notes, and the Conversion Stock and has determined it is able to bear the risks associated therewith, including the risk of a complete loss of its investment in the Notes, the Conversion Stock, and any other investment related thereto or to the exercise of its Conversion Rights;

(iii) Interstate Bakeries is not current with respect to various filings required by the Securities and Exchange Act of 1934, as amended, and the rules and regulations thereunder promulgated by the Securities and Exchange Commission ("Filings") and the Debtors, and their affiliates, directors, officers, employees, agents and attorneys (collectively, "Interstate Bakeries Parties"), may have material, non-public information that such Noteholder has not received and does not wish to receive; and

(iv) such Noteholder is relying upon its own independent analysis and decision based upon information available to it in order to make any decision with regard to the exercise of its Conversion Rights without reliance upon the Interstate Bakeries Parties or Filings.

(c) solely with respect to the Notes subject to the conversion request, waive and release the Interstate Bakeries Parties from any and all requirements set forth in the applicable Registration Rights Agreement executed by such Noteholder (or its predecessor in interest) in any way related to or associated with the Indenture, the Noteholders' Conversion Rights or the Conversion Stock.

(d) solely with respect to the Notes subject to the conversion request, waive and forever release (i) the Interstate Bakeries Parties and/or (ii) any other third parties who may be entitled to indemnification from or to assert a claim against the Interstate Bakeries Parties in the event that claims of the type to be released hereby against the Interstate Bakeries Parties were made against such third parties, from any claim, including, without limitation, any claim, right, liability or damage, including, without limitation, any pre-petition claim, post-petition claim, and administrative expense claim pursuant to 11 U.S.C. § 503 or otherwise, that arises from or is related in any way to its purchase of the Notes, the exercise of its Conversion Rights, the acquisition of the Conversion Stock issued pursuant to such exercise and/or any claims or rights arising under the applicable Purchase Agreement executed by such Noteholder

(or its predecessor in interest), the Indenture, the applicable Registration Rights Agreement executed by such Noteholder (or its predecessor in interest) and any other instrument or arrangement made, executed or delivered in connection with the Notes, and further agrees that to the extent such waiver and release is in any way ineffective, any claim which does arise in its favor shall be and hereby is subordinated to any and all other claims in this case pursuant to 11 U.S.C. § 510(b).

3. Neither the exercise of any Conversion Right nor the honoring of such exercise by Interstate Bakeries is, nor shall be deemed to be, an assumption of the Indenture, the Notes, or any contract or option constituted by or associated with the Conversion Rights, nor shall any such exercise or honor or related actions create or be deemed to create in favor of any Noteholder or any other person or entity an administrative expense claim pursuant to 11 U.S.C. § 503 against the Debtors or their estates.

4. This Stipulation and Agreed Order may be executed in multiple counterparts by multiple Noteholders, whether prior to or subsequent to its entry by the Court, each of which shall be deemed an original, but all of which constitute one and the same agreement, and the signature pages from any counterpart may be appended to any other counterpart to assemble fully-executed counterparts. Counterparts of this Stipulation and Agreed Order also may be exchanged via electronic means, and a facsimile of any party's signature shall be deemed to be an original signature for all purposes.

5. The stipulations and agreements made herein shall only be effective and enforceable upon entry of this Stipulation and Agreed Order by the Court and such Stipulation and Agreed Order having become final and non-appealable.

So Ordered this 19th day of December 2005

/s/ Jerry W. Venters
Hon. Jerry W. Venters
United States Bankruptcy Judge

Respectfully Submitted:

EVANS & MULLINIX, P.A.

/s/ Joanne B. Stutz

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Attorneys for R² Investments L

Agreed to:

R² INVESTMENTS, LDC

By: Amalgamated Gadget, L.P. as Investment Manager

By: Scepter Holdings, Inc., General Partner

By: /S/ Robert McCormick

Name: Robert McCormick

Title: Vice President

INTERSTATE BAKERIES CORPORATION

By: /S/ Ronald B. Hutchison

Name: Ronald B. Hutchison

Title: EVP & CFO