

***Store Management Bonus Plan***

***1/26/2024***

**Goal of the Bonus Plan:**

The goal of the Bonus Plan is to reward managers based on their ability to ***grow*** sales and profit while building long-term guest loyalty because the store is managed “The Freddy’s Way” with an emphasis on Cleanliness, Friendliness/Hospitality, Fast Service, Food Safety, Workplace Safety, and a Fun Work Environment.

**Eligibility:**

Individuals in a salaried & hourly store management position AFTER completion of their management training, having worked for a full period in a store open at least 12 weeks are considered eligible for this bonus program. Manager must be employed and not have provided notice to step‐down or resign on or prior to the date of the payout in order to receive the bonus.

**Payouts:**

Bonus payouts are calculated and paid on a quarterly basis and are determined by the performance of the store on the final P&L for the period. Payouts are generally made within six (6) weeks after the end of each quarter.

The Total Bonus Pool Opportunity is 5% of Net Income (EBITDA) with a minimum payout of $2,500 and a maximum of $8,500 when performance criteria are met. This payout is determined through both Financial and Operational Metrics and does not include any additional Operational Add-Ons when stores meet budgets, described below.

*Payouts are not guaranteed, and are subject to overall store profit performance, and can be adjusted downward when a management team fails to operate at a level of excellence based on MUM/DOO/Operating Partner discretion. EBITDA is defined in this plan as Earnings Before (Net) Income Taxes, Depreciation & Amortization. Interest payments are included in the Net Income reflected on MLY’s P&Ls.*

**Bonus Pool Distribution:**

GMs receive 50% of the store bonus pool. Typically, AMs receive 30% of the store bonus pool, and Shift Supervisors receive 20%. However, the remaining 50% split between the rest of the management team may be adjusted at the GM’s discretion subject to approval by the MUM/DOO/Operating Partner. Additionally, the GM can choose to provide part of the bonus pool to high-performing Team Members.

FTMs receive an additional 25% increase in their payout, separate from the bonus pool for their status as GM-Ready assistant managers. FSMs receive a bonus equivalent to the GM of the location they primarily have spent their time over the course of each quarter. In the case they are in multiple stores, their bonus is discretionary according to the Director of Operations and/or Operating Partner.

*Any bonus payment that would have gone to a management team member but is not distributed due to a write-up or a resignation is NOT added to the payouts provided to the other management team members. That portion is removed from the Bonus Pool entirely.*

**Bonus Calculations:**

All bonus eligibility is first determined by a store’s ability to meet Food, Paper, and Labor Costs, as measured by Actual vs Theoretical Variance and a Total Labor Budget. After these metrics are met (or exceeded), a management team may supplement the bonus by exceeding standards for Operational Excellence.

**Profitability**

1. **Meet AvT:** a store must first maintain an Actual vs Theoretical variance below 1% for the quarter to be eligible for a bonus. *This is to monitor the Food/Paper costs of each location. If their AvT is accurate, anything 1% or less would fall within a feasible budget.*
2. **Meet Labor Budget:** a store must secondly meet the Quarterly Labor Budget to be eligible for a bonus. *Budgets are set at the beginning of each quarter by MUMs and GMs and approved by the Director of Operations and/or the Operating Partner.*
3. **Deductions:**
   * **Cash Handling:** It is imperative that the cash collected from guests is deposited in the bank and that our guests receive the proper amount of change. Therefore, we have a strict Cash Handling Policy which all managers are required to enforce and follow. A deduct to the bonus pool occurs when poor cash handling at the store results in larger than budgeted cash shortages/overages. **That deduct is dollar for dollar, times five (5).**

**For Example:** if a store is $100 over/under their budgeted cash handling for the quarter, $500 will be deducted from the Quarterly Bonus Pool.

* + **Comp Cards & Delivery Errors:** all stores are allowed a budget according to sales volume and delivery percentage of sales. A deduct to the bonus pool occurs when comp cards and delivery error charges result in larger than budgeted discounts. All total comp cards handed out as well as delivery error charges incurred during the quarter that are above budget are deducted dollar for dollar. The sales budgets are as follows:
    - **Comp Card Budgets**

**$25,000 – $29,999:** $50 per quarter

**$30,000 - $34,999:** $75 per quarter

**$35,000 - $39,999:** $100 per quarter

**$40,000 - $44,999:** $150 per quarter

**$50,000+:** $200 per quarter

* + - **Delivery Error Charge Budgets**

**< 15% of Net Sales:** $300 per quarter

**> 15% of Net Sales:** $400 per quarter

**Operational Add-Ons**

1. **Cleanliness:** 
   * Average 94% and above on all Cleanliness Audits or OAR F&E Score - $1,000
   * Average 90-93.9% - $250
2. **Food Safety / Ecosure:** 
   * Average 95% and above on all Food Safety Audits with Zero Criticals - $1,000
   * Average 90-94.9% - $250
3. **Friendliness/Hospitality:**

* Average 90% and above on quarterly Voice of the Guest Rating - $1,000
* Average 85-89.9% - $250

1. **Speed of Service:**
   * Average 87% and above on quarterly Speed of Service Rating - $1,000
   * Average 82-86.9% - $250
2. **Overall OAR:**
   * Average 95% or above on all OAR Audits - $1,000
   * Average 90-94.9% - $250
3. **MIT & Promotions:** $250 is earned for every MIT that completes their Training. An additional $250 is added on if that MIT was promoted to management.
   * **Certified Training Restaurant (CTR) Bonus** – a base $500 bonus is earned for all MITs trained in a CTR. Any internal promotions will result in a $250 add-on as well.

**Bonus Disqualifiers:**

In order to motivate management teams to meet our minimum requirements for profitability, and to NOT jeopardize the Freddy’s brand, reputation, or continuing operation in any way, the following result in disqualification of any bonus for the period, and also result in the store being ineligible for future bonuses until corrections have been made as described:

1. **Profitability Disqualifiers**
   * **AvT:** if a store is found to be artificially adjusting stock counts in any way to improve their AvT variance, they are automatically disqualified from a bonus.
   * **Labor**: if a store is found to be in violation of labor laws, including but not limited to: not enforcing Child Labor Guidelines, having employees work off the clock or adjusting clock-in and clock-outs, they are automatically disqualified from a bonus.
2. **Operational Disqualifiers**
   * **Cleanliness:** The store scores **below** **83%**. (Not including initial Holiday Sparkle audit).
   * **Food Safety:** The store fails a Food Safety Audit conducted by EcoSure, the Health Department, the MUM/DOO, or corporate. A failed score is **below** **87%**.
     1. The store becomes re-eligible for future bonuses after submitting an action plan for corrections, executes that action plan, and passes a re-audit **within three days** of the failed audit.
     2. If the store does not pass re-audit, the bonus is forfeited for the entire quarter.
   * **Hospitality:** The store’s average VOTG score for the quarter falls **below 80%.**
   * **Speed of Service:** The store’s average SOS score for the quarter falls **below 77%**.
   * **OAR:** The store’s average Overall OAR score falls **below 87%.**
   * **Training Program:** The store’s Scoop Completion Rate is **75% or less** for employees with the company longer than 30+ days OR Training Book Completion is disqualified 2 Periods in a row.
3. **Work Comp Safety Audit:** The store fails a Work Comp Safety Audit conducted by our insurance company, the MUM/DOO/Operating Partner, or corporate.
   * The store becomes re-eligible for future bonuses after submitting an action plan for corrections, executes that action plan, and passes a re-audit **within three days** of the failed audit.
   * If the store does not pass a re-audit within three days of the failed audit, the bonus is forfeited for the next quarter as well.
4. **Lost-Time Work Injury:** An employee injury resulting in lost work time and the injury is a result of safety policies and procedures not in use at the store.
   * The store becomes re-eligible for future bonuses when corrections are made.
   * If the corrections are not made **within 24 hours** of the injury, bonus is forfeited for the next quarter as well.
5. **Write-Up:** Any manager who has received a written disciplinary warning (i.e. a write-up) is ineligible for a bonus for the quarter.

**New Stores:**

A separate bonus program is in place for management in a store that has been open less than 12 weeks of operation. This bonus is discretionary and will be awarded by the DOO/Operating Partner, in conjunction with the store MUM based on store opening performance.

After the completion of the 12-week opening operating period, eligible managers will enter the Store Management Bonus program as described in this document.

**Termination:**

Managers must be employed and not have given notice or intent to step down from their position prior to the day of the payout to be bonus eligible.

**Business Ethics:**

Managers have an ethical obligation to meet sales and expense budgets honestly while maintaining Freddy’s Frozen Custard & Steakburgers standards including but not limited to maintaining proper staffing levels, providing proper training and cross-training of Team Members, ensuring a warm and friendly environment for Team Members and guests, etc. etc. Bonus deduction up to 100% can occur at the discretion of your MUM/DOO/Operating Partner if business ethics are compromised to achieve financial goals, or other aspects of the Bonus Plan.

Some (not all) examples of when this could occur:

* Excessive negative Guest Comments.
* Inventory “bounce” where the store runs short on inventory to achieve period food and paper cost goals.
* Under scheduling or underutilizing labor or under-training to reach labor cost goals.
* Any attempt to abuse, mislead, and falsify documents/results or to otherwise circumvent the intent of the program may result in disciplinary action, up to and including termination.

The amount and payment of any bonus under this program is subject to the sole discretion of Freddy’s Frozen Custard & Steakburgers and nothing in this document, or any other document describing or referring to this program, shall confer any right of any person to receive a bonus.

**Tax Withholding:**

All taxes applicable to bonus payments will be deducted when bonus payments are made. The bonus payout must be considered as income during the pay period in which it is paid and taxes must be withheld at the applicable Federal and State tax rate.

**Not an Employment Contract:**

Participation in any Freddy’s Frozen Custard & Steakburgers bonus program shall not be construed to give any individual any right or assurance of continued employment. Employment with Freddy’s Frozen Custard & Steakburgers is terminable at will, with or without notice, with or without reason, by either Freddy’s Frozen Custard & Steakburgers or the individual.

**Alteration of the Program:**

Freddy’s Frozen Custard & Steakburgers may modify, amend, or discontinue the Bonus program at any time without notice. This includes, but is not limited to, eligibility, profit requirements, payout percentages, target payouts, and any other program elements. Bonus payouts may be adjusted in the event of a store closure, sale or acquisition.

In addition, the amount and payment of any bonus under this program is subject to the sole discretion of Freddy’s Frozen Custard & Steakburgers of Iowa and nothing in this document, or any other document describing or referring to this program, shall confer any right of any person to receive a bonus.

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Manager Printed Name Manager Signature Date