

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

REC	D 8	3. E	.C.
MAY	2	3	1994

(Mark One)

FEE 026

[XX] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year (52 weeks) ended February 26, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 O 1934 [NO FEE REQUIRED]	OR 15(d) OF THE SECURITIES ACT OF
For the transition period from	MAY 2 4 1994
Commission file number 1-10876	DISCLODUME INC.
SHOPKO STORES, I (Exact name of registrant as specif	NC. Fied in its Charter)
	41_0005054
Minnesota (State or other jurisdiction of incorporation or organization) (I.R.	S. Employer Identification No.)
700 bilaria Mar. Groop Pay Wissonein	54304
700 Pilgrim Way, Green Bay, Wisconsin (Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area of Securities registered pursuant to Section 12(b)	
Decartor Logarounda parameter of Louisian in the	
Title of each class Common Stock, par value \$0.01 per share	Name of each exchange on which registered New York Stock Exchange
Securities registered pursuant to Section 12(g)) of the Act: None.
Indicate by check mark whether the Registrant (1 to be filed by Section 13 or 15(d) of the Securi the preceding 12 months (or for such shorter required to file such reports), and (2) has requirements for the past 90 days. Yes X	period that the Registrant was seen subject to such filing

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 11, 1994 was approximately \$187,570,000 (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date).

Number of shares of \$0.01 par value Common Stock outstanding as of April 11, 1994: 32,016,000.

DOCUMENTS INCORPORATED BY REFERENCE

- 1. Portions of Registrant's Annual Report to Shareholders for the fiscal year ended February 26, 1994 are incorporated into Parts II and IV, as specifically set forth in said Parts II and IV.
- Portions of Registrant's definitive Proxy Statement filed for Registrant's 1994 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in said Part III.

Item 1 BUSINESS

<u>General</u>

Shopko Stores, Inc., a Minnesota corporation, ("Shopko" or the "Company"), is a leading regional retailer operating 117 retail stores in 15 Upper Midwest, Mountain and Pacific Northwest states as of February 26, 1994. The Company was founded in 1961 and was acquired by SUPERVALU INC. ("SUPERVALU") in 1971. In October 1991, the Company completed the initial public offering of its common stock. The Company's principal executive offices are located at 700 Pilgrim Way, Green Bay, Wisconsin 54304, and its telephone number is (414) 497-2211. As used herein, the terms "Shopko" and the "Company" include Shopko Stores, Inc. and its consolidated subsidiaries.

Merchandising and Services

The Company carries a wide selection of branded and private label "softline" goods such as women's, men's and children's apparel, shoes, jewelry, cosmetics, accessories and home textiles and "hardline" goods such as housewares, small appliances, furniture, music/videos, toys, sporting goods, seasonal and everyday basic categories. The Company's stores carry a broad assortment of merchandise, thus providing customers with a convenient one-stop shopping source for everyday items. The Company's accommodating customer service policies, such as no-hassle returns and, in most markets, its check cashing services, provide customers with a pleasant, convenient shopping experience.

The Company believes that it offers leading brand names in its merchandise lines, concentrating on brands which have wide customer acceptance and provide quality and value. In addition, ShopKo has well-developed private label programs. Virtually all of ShopKo's private label merchandise and direct imports are subjected to independent testing and certification for quality and safety. In addition, the Company has brought in house the capabilities needed to analyze and develop the quality of its fashion offerings. This allows the Company to deliver a better and more consistent product, with greater control and efficiency.

The Company also provides professional health care services in most of its stores. Of the Company's 117 stores at fiscal year end, 116 include pharmacy departments and 112 include optical departments. In addition to generating store traffic and building customer loyalty, these services contribute significantly to the Company's overall profitability and provide the opportunity for additional growth. Each store with pharmacy and optical departments employs or contracts with an average of approximately 3 licensed pharmacists, 1 licensed optometrist and 6 opticians. The Company's optometrists perform in-store eye exams and prescribe correctional lenses, most of which are fabricated in the Company's centralized optical laboratory. The Company's introduction of instore finishing labs provides some customers with one-hour or same day optical service.

As an expansion of its traditional retail pharmacy services during fiscal 1994, the Company formed ProVantage, a prescription management service and mail service pharmacy that is being offered to companies across the country. As these companies face pressure to reduce rising health care costs, they are increasingly directing employees to participate in managed care pharmacy benefit programs, making ProVantage positioned to capture new pharmacy business.

During fiscal 1994, approximately 26% of the Company's net sales were derived from sales of softline goods, approximately 55% from sales of hardline goods and approximately 19% from pharmacy and optical services.

Marketing and Advertising

Shopko's marketing efforts are aimed at its core customers—middle-income shoppers who demand quality and value. The Company advertises weekly in newspapers with full-color circulars and eight times a year with direct-mail. Each of the circulars, averaging 20 pages in length, features several hundred specially priced high demand items. These frequent print promotions have a circulation of more than 3 million. These advertising materials are designed by the Company's in-house graphic design team, with the featured items selected on the basis of potential increases in sales and margins, image benefits to the stores and traffic generation. Most photography for the circulars and "pocketbooks" is done in the Company's own photography studio.

Shopko prices its merchandise so as to be generally competitive with its discount retail competitors. In general, the Company utilizes its frequent advertising of a large group of specially priced high demand items to reinforce its competitive price image and to generate store traffic, rather than attempting to meet the lowest available price on every item. With its Vision 2000 format, the Company has provided its customers with better product quality, greater variety, timely fashion and a more attractive upscale shopping environment at generally competitive prices.

Store Layout and Design

ShopKo stores are designed for customer convenience and for effective merchandise presentation. The Vision 2000 format features a fashion stage at the store entrance to create the upscale image of the store and feature high margin apparel goods. As of February 26, 1994, approximately 34% of the stores utilized this concept. The previous store layout and design reserves areas adjacent to the store entrances for the Company's seasonal promotions. Under both designs, the optical and pharmacy departments are placed near the front of the store with the remainder of the store being laid out in a configuration which takes customers between and around departments. The Company's current promotionally priced items are prominently displayed.

In 1991, the Company began remodeling the existing stores in the Vision 2000 format. In fiscal 1994, the Company opened eight new stores (including two relocated stores) and has remodeled 16 other stores under this format. The Company expects to continue to explore and test alternative store layout and display techniques and merchandise mixes. Depending on the cost of land acquisition, size of store and site preparation work, the Company expects that a typical new store's cost for land acquisition, site preparation, building and fixturing will approximate \$5.5 to \$11.0 million. Remodels, which generally take place approximately every seven to ten years, usually cost from \$400,000 to \$2 million per store.

The Company's average store size is approximately 90,400 square feet with approximately 83% of the stores greater than 74,000 square feet. The Company anticipates that, in the future, its typical new store will be based on one of three standard prototypes; a 99,000 square foot store, an 88,000 square foot store or a 74,000 square foot store. The prototype selected will depend on the community and the retail competition in that area. All new stores will have a greater portion of store square footage dedicated to selling space and less space dedicated to the storage of inventory.

Store Operations and Management

The Company's policies of promoting store management personnel from within and providing ongoing management training programs provide the Company with a pool of store management talent available to manage new stores as they are opened. The Company's present store managers have been employed by ShopKo in various positions on an average of more than 12 years, and its assistant managers on an average of slightly less than 5 years.

During fiscal 1994, the Company implemented a new store management structure that reallocated staffing from management to customer service. The Company intensified training in cashiering techniques, increasing its checkout speed and reducing its cost. It also instituted an independent customer survey process which is referred to as the "Gallup Customer Satisfaction Program". This program measured and quantified customer service in all stores, pharmacies and optical centers emphasizing to our associates to focus on what is really important to customers.

ShopKo maintains an extensive loss prevention program. The Company believes that this program, which incorporates a consistently firm stance in dealing with shoplifting and other forms of theft, has been effective in minimizing its losses.

Purchasing and Distribution

ShopKo purchases merchandise from more than 3,500 vendors, with its ten largest vendors accounting for approximately 23% of the Company's purchases during fiscal 1994. The Company believes that most merchandise, other than branded goods, is available from a variety of sources. Approximately 600 vendors were linked to the Company's EDI purchase order system as of February 26, 1994. Vendors will continue to be added over the next several years. A number of vendors are now electronically receiving point-of-sale information, allowing them to respond to changing inventory levels in the stores. The Company has also implemented the use of electronic purchase order acknowledgements issued by vendors based on the sales information they have received.

The Company is upgrading its merchandise planning, allocation and control systems. Management believes the Company's ability to more effectively manage in-stock positions and better manage merchandise assortment will increase sales volume.

Direct imports accounted for approximately 6% of the Company's purchases during fiscal 1994. The Company buys its imported goods, principally in the Far East, and ships the goods to its distribution centers for distribution to the stores.

The completed fiscal 1993 expansion of the three distribution centers has enabled the Company to increase the proportion of its merchandise purchased directly from manufacturers (thus reducing its cost of goods), to reduce direct vendor-to-store deliveries (thus reducing freight charges and cost of goods through consolidated volume purchasing) and to increase the pick and pull capabilities allowing the Company to increase its deal buying (thus reducing its costs of goods). The Company anticipates that these cost reductions will help it remain price competitive. During fiscal 1994, approximately 70% of the merchandise sold by the Company (excluding optical and pharmaceutical drugs) flowed through its distribution centers.

ShopKo's shoe department (other than athletic shoes) is in every store and is the principal department operated by a third party under license. The Company retains a percentage of the gross proceeds collected as rent.

Management Information Systems

Shopko uses information technology to improve customer service, reduce operating costs and provide the information needed to support management decisions. The Company utilizes point-of-sale scanning systems for capturing and tracking sales information at the SKU and store levels, in-store electronic "price lookup" systems and shelf pricing of merchandise, and on-line credit card approval technology. The Company also makes extensive use of automated labor scheduling and tracking systems.

The Company made a significant investment in new pharmacy and optical software systems and in-store processors in fiscal 1994. These new systems improved business and recordkeeping efficiencies in both the pharmacy and optical centers and improved the Company's ability to pursue third-party contracts, an increasingly important part of the health care industry.

Expansion

The Company opened eight new stores (including two relocated stores) and remodeled 16 other stores in fiscal 1994. Present plans are to open seven new stores and remodel 34 other stores in fiscal 1995. Management also anticipates opening ten new stores in fiscal 1996. The Company anticipates increasing the number of new store openings and slowing the rate at which stores are remodeled in subsequent fiscal years. The Company also believes that growth opportunities may exist in areas both contiguous and noncontiguous to its present regions. The Company's plans with respect to store openings and remodeling may be reviewed and revised from time to time in light of changing conditions. In certain instances, the Company's ability to proceed with projects is subject to successful negotiation of site acquisitions or leases and the availability of financing, and the timing of projects is subject to normal construction and other delays. Thus, it is possible that not all of the projects described above will be commenced and that other projects will be added.

Competition

The discount general merchandise business is very competitive. Shopko competes in most of its markets with a variety of national, regional and local discount stores. In addition, department stores compete in some branded merchandise lines, discount specialty retail chains compete in some merchandise lines such as electronics and toys, and drug operations compete with some of Shopko's pharmacy departments. The Company believes that the principal competitive factors in its markets include store location; pricing; breadth and quality of product selection; attractiveness and cleanliness; responsiveness to changing customer tastes and regional and local trends; customer service; in-stock availability of merchandise; and advertising.

The Company's principal national general merchandise discount chain competitors are Wal-Mart, Kmart and Target, each of which is substantially larger than, and has greater resources than, the Company. Kmart stores directly compete with virtually all of the Company's stores, Wal-Mart stores directly compete approximately 54% of its stores and Target stores directly compete with approximately 48% of its stores. In addition, the Company competes with regional chains in some markets in the Midwest and the Pacific Northwest. The Company expects Wal-Mart and Target to continue to open stores competing with stores operated by the Historically, the entry of one of these chains into an area served by one of the Company's stores generally has had an adverse effect on the affected ShopKo store's sales growth for approximately 12 months, after which time the ShopKo store generally has resumed a positive growth trend, and such entry often has resulted in permanently intensified price competition. Company's efficiency measures and distribution center expenditures are important aspects of its efforts to maintain or improve operating margins and market share in these markets.

Seasonality

The operations of the Company are highly seasonal, with the third and fourth fiscal quarters contributing a significant part of the Company's earnings due to the Christmas selling season. Because the Company's fiscal year ends on the last Saturday in February, the Christmas selling season impacts both the third and fourth fiscal quarters.

Employees

As of February 26, 1994, the Company employed approximately 19,200 persons, of whom approximately 9,000 were full-time employees and 10,200 were part-time employees. During the Christmas shopping season, the Company typically employs approximately 2,000 additional persons on a temporary basis. None of the Company's employees are covered by collective bargaining agreements.

Item 2 PROPERTIES

At February 26, 1994, the Company operated 117 retail stores located in 15 Upper Midwest, Mountain, and Pacific Northwest states. The following table sets forth the geographic distribution of the Company's present stores:

# of	;	# of
<u>State</u> <u>Stores</u>	State St	ores
California 1	Montana	4
Colorado 2	Nebraska	10
Idaho 8	Nevada	3
Illinois 1	Oregon	4
Iowa 3	South Dakota	6
Michigan 3	Utah	15
Minnesota 13	Washington	7
	Wisconsin	
	Total	

Shopko owns the land and building outright with respect to 98 of its stores, owns the building subject to a ground lease with respect to 8 of its stores and leases the land and building with respect to 11 of its stores. The ground leases expire at various dates ranging from 2012 through 2038 and the other leases expire at various dates ranging from 1995 through 2014. As of February 26, 1994, 30 stores and two distribution centers were owned by the Company's wholly-owned subsidiary, Shopko Properties, Inc.

The Company's other principal properties are as follows:

<u>Location</u>	<u>Use</u>	Sq. Ft of Building Space	<u>Title</u>
Green Bay, WI	Corporate Headquarters	228,000	Owned
010011 2037 712	corporate meadquarters	220,000	Ownea
Green Bay, WI	Corporate Headquarters - Annex	21,000	Leased
Wisconsin Rapids, WI	Information Services Dept. Satellite Office	1,300	Leased
DePere, WI	Distribution Center	265,000	Owned
Boise, ID	Distribution Center	210,000	Owned
Omaha, NE	Distribution Center	50,000	Owned
Green Bay, WI	Return Center	68,500	Owned
Green Bay, WI	ProVantage Mail Service	10,000	Leased

Item 3 <u>LEGAL PROCEEDINGS</u>

The Company is involved in various litigation matters arising in the ordinary course of its business. Management believes that none of this litigation will have a material adverse effect on the Company's financial condition or results of operations.

Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no matter submitted during the fourth quarter of fiscal year 1994 to a vote of the security holders of Registrant.

EXECUTIVE OFFICERS OF THE REGISTRANT

		Serve	d in
<u>Name</u>	<u>Age</u>	<u>Position</u> <u>Position</u>	Since
			4000
Dale P. Kramer		President, Chief Executive Officer & Director	1991
Mark R. Kennedy	. 36	Senior Executive Vice President	1993
Jeffrey A. Jones	. 47	Senior Vice President/Chief Financial Officer	1993
Thomas D. Hendra	. 48	Senior Vice President, General Merchandise	1991
•		Manager, Hardlines/Home	
Steven T. Harig	. 39	Senior Vice President, Replenishment,	1993
		Distribution	
David A. Liebergen	. 47	Senior Vice President, Human Resources and	1993
_		Secretary	
Roger J. Chustz	. 44	Senior Vice President, General Merchandise	1993
3		Manager, Apparel	
Lawrence J. Clark.	. 46	Vice President, Finance	1992
Michael J. Bettiga		Vice President, Health Services	1993
C. Scott Copeland.		Vice President, Store Operations, Loss Prevention	1993
Gary B. Hammond	. 45	Vice President, Store Operations, Merchandise	1993
•		Presentation	
Peter R. Lynn	. 35	Vice President, Marketing	1994

There are no family relationships between or among any of the executive officers of the Company.

The term of office of each executive officer is from one annual meeting of the directors until the next annual meeting of directors or until a successor for each is selected.

There are no arrangements or understandings between any of the executive officers of the Registrant and any other person (not an officer or director of the Registrant acting as such) pursuant to which any of the executive officers were selected as an officer of the Registrant.

Each of the executive officers of the Company has been in the employ of the Company for more than five years, except for Mark R. Kennedy, Jeffrey A. Jones, Steven T. Harig, Roger J. Chustz and Peter R. Lynn. Mr. Kennedy has been Senior Executive Vice President of the Company since July 1993. Mr. Kennedy had been Executive Vice President of the Company from January 1993 to July 1993 and served as its Chief Financial Officer and Senior Vice President from February 1992 through December 1992. Mr. Kennedy was a Senior Vice President of Federated Department Stores, Inc. and Allied Stores Corporation from January 1990 to February 1992, after serving as a Vice President and Treasurer of Federated and Allied since June 1988. Mr. Jones has been Senior Vice President and Chief Financial Officer of the Company since November 1993. Mr. Jones was Senior Vice President and Chief Financial Officer for Trans World Music Corporation from 1990 through Mr. Jones also held various executive positions at The Fur Vault, Inc. and Lane Bryant, Inc., a subsidiary of The Limited, Inc. Mr. Harig is Senior Vice President, Replenishment and Distribution. Mr. Harig had been Vice President, Inventory and Replenishment of the Company since February 1990 and served as its Vice President, Special Projects from May 1989 to February 1990. Mr. Harig was employed by Wal-Mart Stores, Inc. in various positions from 1978 to May 1989, most recently as Vice President, International Merchandising. Mr. Chustz has been Senior Vice President, General Merchandise Manager, Apparel of ShopKo since October 1993. Mr. Chustz also served as Vice President, General Merchandise Manager, Apparel from March 1993 to October 1993. Mr. Chustz was employed by Maison Blanche in various positions from 1975 through 1992, most recently as Senior Vice President, General Merchandising Manager. Mr. Chustz also served as President of Brocato immediately prior to joining the Company. Mr. Lynn has been Vice President, Marketing of the Company since February 1994 and served as Director of Strategic Planning from February 1993 Mr. Lynn was previously in the management to February 1994. consulting practice of Deloitte and Touche.

PART II

Item 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The information called for by Item 5 as to the principal market upon which the Registrant's Common Stock is traded and as to the approximate record number of shareholders of the Registrant is hereby incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1994 (Exhibit 13) page 24.

The information called for by Item 5 as to the Registrant's quarterly dividends and quarterly stock price ranges for the last two fiscal years is hereby incorporated by reference to Note I of Notes to Consolidated Financial Statements of the Registrant's Annual Report to the Shareholders for fiscal year 1994 (Exhibit 13) page 23.

The Registrant's revolving credit agreement has a restrictive covenant which requires maintenance of a minimum net worth. This covenant may potentially limit the payment of dividends. As of February 26, 1994, the Company was in compliance with this covenant having a net worth balance of \$373.7 million compared to a required balance of \$315.0 million.

Item 6 <u>SELECTED FINANCIAL DATA</u>

The information called for by Item 6 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1994 (Exhibit 13) page 13.

Item 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information called for by Item 7 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1994 (Exhibit 13) pages 10, 11 and 12.

Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by Item 8 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1994 (Exhibit 13) pages 14 through 23.

Item 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10, as to Directors of the Registrant and the information required by Item 401 of Regulation S-K, is incorporated by reference to the Registrant's definitive Proxy Statement dated May 19, 1994 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1994 Annual Meeting of Shareholders. Information regarding executive officers is included in Part I above.

Item 11 EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 19, 1994 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1994 Annual Meeting of Shareholders.

Item 12 <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>

The information called for by Item 12 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 19, 1994 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1994 Annual Meeting of Shareholders.

Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 19, 1994 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1994 Annual Meeting of Shareholders.

Part IV

Item 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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Form	10-	-K

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(a) 1. Financial Statements:

The following consolidated financial statements of Shopko Stores, Inc. and Subsidiaries are included in Part II, Item 8 (which incorporates information by reference to the Registrant's 1994 Annual Report to Shareholders (Exhibit 13)): 14 Independent Auditors' Report Consolidated balance sheets as of February 26, 1994 and February 27, 1993 Consolidated statements of earnings for each of the three years in the period ended February 26, 1994 Consolidated statements of cash flows for each of the three years in the period ended February 26, 1994 Consolidated statements of shareholders' equity for each of the three years in the period ended February 26, 1994 Notes to consolidated financial statements

2. Consolidated Financial Statement Schedules for ShopKo Stores, Inc. and Subsidiaries:

Selected Quarterly Financial Data - for the two years ended February 26, 1994 - included in Part II, Item 8 (which incorporates information by reference to the Registrant's 1994 Annual Report to Shareholders (Exhibit 13)).

Independent Auditors' Report 21 Indebtedness to related Schedule IV parties - not current 22 Schedule V Property and equipment 23 Schedule VI Accumulated depreciation and amortization of property and equipment 24 Schedule VIII Valuation and qualifying accounts 25 Schedule IX Short-term borrowings 26 Schedule X Supplementary income statement information 27 All other schedules are omitted because they are not applicable or not required.

3. Exhibits

- 3.1 Restated Articles of Incorporation of the Company. (2)
- 3.2 Bylaws of the Company, as amended. (2)
- 4.1.1 Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2002. (4)
- 4.1.2 Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2022. (4)
- 4.1.3 Indenture dated as of July 15, 1993 between the Company and First Trust National Association, as trustee.
- 4.2 Form of Rights Agreement between the Company and Norwest Bank Minnesota, National Association (including form of preferred stock designation). (5)
- 4.3 Credit Agreement dated as of October 4, 1993, among the Company, the banks listed there in and Morgan Guaranty Trust Company of New York, as agent. ("Credit Agreement") (8)
- ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).
 (1) (2)
- 10.3 Shopko Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended. (1) (2)
- 10.4 First and second amendments to ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement. (1) (6)
- 10.5 Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company. (1) (2)

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10.12	Registration Rights Agreement dated as of October 8, 1991 between the Company and Supermarket Operators of America Inc. (3)
10.16	Supply Agreement (Food Products) dated as of October 8, 1991 between the Company and SUPERVALU INC. (3)
10.17	Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC. (3)
10.18	Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell. (1) (4)
10.19	Insurance Matters Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC. (3)
10.20	Form of Indemnification Agreement between the Company and directors and certain officers of the Company. (1) (2)
10.21	ShopKo Senior Officers Deferred Compensation Plan. (1) (4)
10.22	ShopKo Directors Deferred Compensation Plan. (1) (3)
10.23	ShopKo Stores, Inc. Executive Incentive Plan. (1) (7)
10.24	ShopKo Stores, Inc. 1993 Restricted Stock Plan, as amended. (1)
11 .	Computation of Earnings Per Common and Common Equivalent Share.
12	Statements Re Computation of Ratios.
13	1994 Annual Report to Shareholders of Registrant.
21.1	Subsidiaries of the Registrant. (6)
23.1	Consent of Deloitte & Touche.
(1)	A management contract or compensatory plan or arrangement.

- (2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283).
- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).
- (4) Incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 53 weeks ended February 29, 1992.
- (5) Incorporated by reference from the Registrant's Form 10-Q, Quarterly Report to the Securities and Exchange Commission for the 16 weeks ended June 20, 1992.
- (6) Incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 52 weeks ended February 27, 1993.
- (7) Incorporated by reference from the Registrant's Form 10-Q, quarterly report to the Securities and Exchange Commission for the 16 weeks ended June 19, 1993.
- (8) Incorporated by reference from the Registrant's Form 10-Q, quarterly report to the Securities and Exchange Commission for the 12 weeks ended September 11, 1993.

Pursuant to Regulation S-K, Item 601(b)(4)(iii), the registrant hereby agrees to furnish to the Commission, upon request, a copy of each instrument and agreement with respect to long-term debt of the Registrant and its consolidated subsidiaries which does not exceed 10 percent of the total assets of the Registrant and its subsidiaries on a consolidated basis.

(b) Reports on Form 8-K:

No report on Form 8-K was filed during the fourth fiscal quarter of fiscal year 1994 ended February 26, 1994.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SHOPKO STORES, INC. (Registrant)

Date: May 20, 1994

By: Dale P. Kramer

Chief Executive Officer and

Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report to be signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	<u>Title</u>	<u>Date</u>
Michael W. Wright	Chairman of the Board of Directors	May 20, 1994
William J. Tyrrell William J. Tyrrell	Vice Chairman of the Board of Directors	May 20, 1994
Dale P. Kramer	President, Chief Executive Officer and Director	May 20, 1994
Jeffrey C. Girard	Senior Vice President/Chief Financial Officer Director	May 20, 1994 May 20, 1994
Bruce G. Allbright July W. Eugster	Director Director	May 20, 1994
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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SHOPKO STORES, INC. (Registrant)

Date:

Dale P. Kramer
Chief Executive Officer and
Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report to be signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Michael W. Wright	Chairman of the Board of Directors	
William J. Tyrrell	Vice Chairman of the Board of Directors	
Dale P. Kramer	President, Chief Executive Officer and Director	
Jeffrey A. Jones	Senior Vice President/Chief Financial Officer	
Jeffrey C. Girard	Director .	
Bruce G. Allbright	Director	May 20, 1994
Jack W. Eugster	Director	

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders ShopKo Stores, Inc. and Subsidiaries Green Bay, Wisconsin

We have audited the consolidated financial statements of Shopko Stores, Inc. and subsidiaries as of February 26, 1994 and February 27, 1993 and for each of the three years (52 weeks, 52 weeks and 53 weeks) in the period ended February 26, 1994 and have issued our report thereon dated March 31, 1994; such consolidated financial statements and report are included in your 1994 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of Shopko Stores, Inc. and subsidiaries, listed in Item 14. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE

Milwaukee, Wisconsin

March 31, 1994

ShopKo Stores, Inc. and Subsidiaries Schedule IV-Indebtedness to Related Parties-Not Current (In thousands)

		Balance at beginning of year	Additions	Deductions	i	Balance at end of year
Year (53 weeks) ended February 29, 1992: SUPERVALU INC	<u>\$</u>	204,034		\$ 22,867	\$	181,167
Year (52 weeks) ended February 27, 1993: SUPERVALU INC	\$	181,167		\$ 181,167	\$	0
Year (52 weeks) ended February 26, 1994: SUPERVALU INC	<u>\$</u>	0			\$	0

ShopKo Stores, Inc. and Subsidiaries Schedule V-Property and Equipment (In thousands)

Many (50 was the band of Fabruary 00, 4000)		Balance at beginning of year	 Additions at cost	Retirements and ransfers(1)	Balance at end of year
Year (53 weeks) ended February 29, 1992:		00.000			
Land	\$	86,230	\$ 3,817	\$ 851	\$ 89,196
Buildings and Improvements:					
Owned		280,908	13,204	(15,270)	309,382
Leased		20,617	1,871	7,513	14,975
Property Under Construction		16,426	17,714	15,492	18,648
Leasehold Improvements		41,178	594	869	40,903
Equipment		176,844	18,062	2,999	191,907
. T I	\$	622,203	\$ 55,262	\$ 12,454	\$ 665,011
Year (52 weeks) ended February 27, 1993: Land	\$ <u>\$</u>	89,196 309,382 14,975 18,648 40,903 191,907 665,011	\$ 13,328 35,687 1,603 40,442 91,060	\$ 130 (7,357) 759 9,984 1,592 10,895 16,003	\$ 102,394 352,426 14,216 8,664 40,914 221,454 740,068
Year (52 weeks) ended February 26, 1994: Land Buildings and Improvements: Owned	\$	102,394 352,426	\$ 10,471 49,320	\$ 1,716 1,561	\$ 111,149 400,185
Leased		14,216	1,769	1,386	14,599
Property Under Construction		8,664	17,831	•	26,495
Leasehold Improvements		40,914	1,278	356	41,836
Equipment		221,454	 54,942	13,792	 262,604
·	\$	740,068	\$ 135,611	\$ 18,811	\$ 856,868

⁽¹⁾ Transfers represent transfers from property under construction to buildings.

ShopKo Stores, Inc. and Subsidiaries Schedule VI-Accumulated Depreciation and Amortization Of Property and Equipment (In thousands)

	_	Balance at beginning of year	ļ	Additions charged to costs & xpenses(1)		Retirements and transfers	s	Balance at end of year
Year (53 weeks) ended February 29, 1992:								
Buildings and Improvements:	_	40.000	_		_			
Owned	\$	66,359	\$	14,004	\$	77	\$	80,286
Leased		13,177		1,415		7,046		7,546
Leasehold Improvements		9,887		2,630		863		11,654
Equipment	ــــ	100,774		22,323		2,795		120,302
	<u>\$</u>	190,197	\$	40,372	\$	10,781	\$	219,788
Year (52 weeks) ended February 27, 1993: Buildings and Improvements:								
Owned	\$	80,286	\$	15,663	\$	2,509	\$	93,440
Leased		7,546		869		759		7,656
Leasehold Improvements		11,654		2,625		1,592		12,687
Equipment		120,302		23,889		10,974		133,217
	\$	219,788	\$	43,046	\$	15,834	\$	247,000
Year (52 weeks) ended February 26, 1994: Buildings and Improvements:								
Owned	\$	93,440	\$	17,199	\$	122	\$	110,517
Leased	•	7,656	•	791	•	1,386	•	7,061
Leasehold Improvements		12,687		2,655		356		14,986
Equipment		133,217		26,620		13,714		146,123
- •	\$	247,000	\$	47,265	\$	15,578	\$	278,687

Cost of buildings and equipment are depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally computer and retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are; buildings-25 to 40 years; retail store equipment-3 to 10 years. Costs of leasehold improvements are amortized individually over the period of the lease or the estimated useful life of the assets, whichever is shorter, using the straight-line method. Leased assets under capital leases are amortized over the related lease term using the straight-line method.

(1) Additions charged to costs and expenses are lower than the depreciation and amortization line on the Consolidated Statements of Cash Flows by the amount of any loan costs amortization. Amortization for loan costs was \$229.0 and \$71.0 for 1993 and 1994, respectively.

ShopKo Stores, Inc. and Subsidiaries Schedule VIII-Valuation and Qualifying Accounts (In thousands)

		Balance at beginning of year	Charged to costs and expenses	 Deductions* (Additions)*	Balance at end of year
Year (53 weeks) ended February 29, 1992: Allowance for losses	\$	1,410	\$ 139	\$ (829) \$	2,378
Year (52 weeks) ended February 27, 1993: Allowance for losses	\$	2,378	143	\$ 943 \$	1,578
Year (52 weeks) ended February 26, 1994: Allowance for losses	<u>\$</u>	1,578	\$ 63_	\$ (492) \$	2,133

^{*}Net of charges to accounts other than bad debt expense, primarily promotion and advertising.

ShopKo Stores, Inc. and Subsidiaries Schedule IX Short-Term Borrowings (in thousands)

	End of Year		Maximum Amount	Fiscal Year Averages	
Category of Short-Term Borrowings	Balance	Weighted Average Interest Rate	Outstanding During the Year	Average Amt Outstanding	Weighted Avg. Interest Rate
February 26, 1994: Notes Payable				(A)	(B)
to Banks	\$26,200	3.46%	\$80,000	\$37,377	3.38%

⁽A) Average amount outstanding during the period is computed by dividing the period end outstanding balances by 13.

⁽B) Weighted average interest rate for the year is computed by dividing the actual short-term interest expense by the average short-term debt outstanding.

ShopKo Stores, Inc. and Subsidiaries Schedule X-Supplementary Income Statement Information (In thousands)

	Fiscal years ended		
	February 29, February 27, February 26		
	1992	1993	1994
	(53 weeks)	(52 weeks)	(52 weeks)
1. Maintenance and repairs	*	*	*
2. Amortization of Intangible assets	•	*	*
3. Taxes other than payroll and income taxes	*	*	*
4. Royalties	•	•	*
5. Advertising costs**	\$ 20,391	\$ 20,953	19,765

^{*}Amounts not significant-less than 1% of total sales and revenues.
**Net of vendor allowances.

EXHIBIT INDEX SHOPKO STORES, INC. 10-K REPORT

EXHIBIT NUMBER	EXHIBIT	SEQUENTIAL PAGE NUMBER IN MANUALLY SIGNED ORIGINAL
3.1	Restated Articles of Incorporation of the Company.	Incorporated by Reference
3.2	Bylaws of the Company, as amended.	Incorporated by Reference
4.1.1	Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2002.	Incorporated by Reference
4.1.2	Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2022.	Incorporated by Reference
4.1.3	Indenture dated as of July 15, 1993 between the Company and First Trust National Association, as trustee.	
4.2	Form of Rights Agreement between the Company and Norwest Bank Minnesota, National Association (including form of preferred stock designation).	Incorporated by Reference
4.3	Credit Agreement dated as of October 4, 1993, among the Company, the banks listed there in and Morgan Guaranty Trust Company of New York, as agent. ("Credit Agreement")	Incorporated by Reference
10.1	ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).	Incorporated by Reference
10.3	ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended.	Incorporated by Reference
10.4	First and second amendments to ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement.	Incorporated by Reference
10.5	Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company.	Incorporated by Reference
10.12	Registration Rights Agreement dated as of October 8, 1991 between the Company and Supermarket Operators of America Inc.	Incorporated by Reference

EXHIBIT NUMBER	EXHIBIT	SEQUENTIAL PAGE NUMBER IN MANUALLY SIGNED ORIGINAL
10.16	Supply Agreement (Food Products) dated as of October 8, 1991 between the Company and SUPERVALUINC.	Incorporated by Reference
10.17	Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC.	Incorporated by Reference
10.18	Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell.	Incorporated by Reference
10.19	Insurance Matters Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC.	Incorporated by Reference
10.20	Form of Indemnification Agreement between the Company and directors and certain officers of the Company.	Incorporated by Reference
10.21	ShopKo Senior Officers Deferred Compensation Plan.	Incorporated by Reference
10.22	ShopKo Directors Deferred Compensation Plan.	Incorporated by Reference
10.23	ShopKo Stores, Inc. Executive Incentive Plan.	Incorporated by Reference
10,.24	ShopKo Stores, Inc. 1993 Restricted Stock Plan, as amended.	
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12	Statements Re Computation of Ratios.	
13	1994 Annual Report to Shareholders of Registrant.	
21.1	Subsidiaries of the Registrant.	Incorporated by Reference
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SHOPKO STORES, INC.

TO

FIRST TRUST NATIONAL ASSOCIATION, Trustee

Indenture

Dated as of July 15, 1993

SHOPKO STORES, INC.

Certain Sections of this Indenture relating to Sections 310 through 318, inclusive, of the Trust Indenture Act of 1939:

Trust Indenture Act Section	Indenture Section
§ 310(a)(1)	609
(a)(2)	609
(a)(3)	Not applicable
(a)(4)	Not applicable
(b)	608
•	610
§ 311(a)	613
(b)	613
§ 312(a)	70 1
	702(a)
(b)	702(b)
(c)	702(c)
§ 313(a)	703(a)
(b)	703(a)
(c)	703(a)
(d)	703(b)
§ 314(a)	704
(a)(4)	101
	1009
(b)	Not Applicable
(c)(1)	102
(c)(2)	102
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	102
§ 315(a)	601
(b)	602
(c)	601
(d)	601
(e)	514
§ 316(a)	101
(a)(1)(A)	502
·	512
(a)(1)(B)	513
(a)(2)	Not Applicable
(b)	508
(c)	104(c)
§ 317(a)(1)	503
(a)(2)	504
(b)	1003
§ 318(a)	107

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	"Business Day"
	"Capital Lease Obligation"
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	"Company"
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INDENTURE, dated as of July 15, 1993, between SHOPKO STORES, INC., a corporation duly organized and existing under the laws of the State of Minnesota (herein called the "Company"), having its principal office at 700 Pilgrim Way, Green Bay, Wisconsin 54304 and FIRST TRUST NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE ONE

Definitions and Other Provisions of General Application

Section 101. Definitions

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Six, are defined in that Article.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, provided, that any Person who does not own, directly or indirectly, more than 5% of the outstanding voting securities of the Company shall not be deemed to "control" the Company; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Attributable Value" means, as to any particular lease under which any Person is at the time liable other than a Capital Lease Obligation, and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such Person under such lease during the remaining term thereof, as determined in accordance with generally accepted accounting principles, discounted from the respective due dates thereof to the date of determination at a rate per annum equal to the discount rate that would be applicable to a Capital Lease Obligation with like term in accordance with generally accepted accounting principles. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of rent payable by the lessee with respect to such period after excluding, in accordance with generally accepted accounting principles, amounts required to be paid on account of insurance, taxes, assessments, utility, operating and labor costs and similar charges and rents charged as a percentage of sales in excess of base amount. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated. "Attributable Value" means, as to a Capital Lease Obligation under which any Person is at the time liable and at any date as of which the amount thereof is to be determined, the capitalized amount thereof that would appear on the face of a balance sheet of such Person in accordance with generally accepted accounting principles.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Capital Lease Obligation" of any Person means the obligation to pay rent or other payment amounts under a lease of (or other indebtedness arrangements conveying the right to use) real or personal property of such Person which is required to be classified and accounted for as a capital lease or a liability on the face of a balance sheet of such Person in accordance with generally accepted accounting principles. The stated maturity of such obligation, as of any date (the "measurement date"), shall be the date of the last payment of rent or any other amount due under such lease prior to the first date after the measurement date upon which such lease may be terminated by the lessee, at its sole option, without payment of a penalty.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934 (the "Exchange Act"), or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request"; "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Consolidated Subsidiaries" of any Person means all other Persons that would be accounted for as consolidated Persons in such Person's financial statements in accordance with generally accepted accounting principles.

"Consolidated Tangible Assets" of any Person means the sum of the Tangible Assets of such Person and its Consolidated Subsidiaries after eliminating inter-company items, all determined in accordance with generally accepted accounting principles, including appropriate deductions for any minority interest in Tangible Assets of such Consolidated Subsidiaries; provided, however, that, with respect to the Company and its Consolidated

Subsidiaries, adjustments following the date of this Indenture to the accounting books and records of the Company and its Consolidated Subsidiaries in accordance with Accounting Principles Board Opinions Nos. 16 and 17 (or successor opinions thereto) or otherwise resulting, in each case, from the acquisition of control of the Company by another Person shall not be given effect.

"Corporate Trust Office" means the principal office of the Trustee in St. Paul, Minnesota or the Borough of Manhattan, The City of New York, as the case may be, at which at any particular time its corporate trust business shall be administered.

"corporation" means a corporation, association, company, joint-stock company or business trust.

"Debt" means (without duplication), with respect to any Person, (i) every obligation of such Person for money borrowed, (ii) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person and (iv) every obligation of the type referred to in clauses (i) through (iii) of another Person the payment of which such Person has guaranteed or is responsible or liable for, directly or indirectly, as obligor, guarantor or otherwise (but only, in the case of this clause (iv), to the extent such Person has guaranteed or is responsible or liable for such obligations).

"Defaulted Interest" has the meaning specified in Section 307.

"Depositary" means, unless otherwise specified by the Company pursuant to Section 301, with respect to Securities of any series issuable or issued as a Global Security, The Depository Trust Company, New York, New York, or any successor thereto registered under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation.

"Event of Default" has the meaning specified in Section 501.

"Global Security" means a Security issued to evidence all or a part of any series of Securities which is executed by the Company and authenticated and delivered by the Trustee to the Depositary (or its nominee or other representative) or pursuant to the Depositary's instruction, all in accordance with this Indenture and pursuant to a Company Order, which shall be registered as to principal and interest in the name of the Depositary or its nominee.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"indebtedness", with respect to any Person, includes all indebtedness of another Person the payment of which such Person has guaranteed or is responsible or liable for, directly or indirectly, as obligor, guarantor or otherwise (but only to the extent such Person has guaranteed or is responsible or liable for such obligations).

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument, and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Lien" means, with respect to any property or assets, any mortgage or deed of trust, pledge, hypothecation, assignment, security interest, lien, encumbrance or other security arrangement of any kind or nature whatsoever on or with respect to such property or assets (including any conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing).

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Net Available Proceeds" from any Sale Transaction by an Person means cash or readily marketable cash equivalents received (including by way of sale or discounting of a note, installment receivable or other receivable, but excluding any other consideration received in the form of assumption by the acquiree of indebtedness or obligations relating to the properties or assets that are the subject of such Sale Transaction or received in any other noncash form) therefrom by such Person, net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred and all federal, state, provincial, foreign and local taxes required to be accrued as a liability as a consequence of such Sale Transaction, (ii) all payments made by such Person or its Subsidiaries on any indebtedness which is secured in whole or in part by any such properties and assets in accordance with the terms of any Lien upon or with respect to any such properties and assets or which must, by the terms of such Lien, or in order to obtain a necessary consent to such Sale Transaction or by applicable law, be repaid out of the proceeds from such Sale Transaction, and (iii) all distributions and other payments made to minority interest holders in Subsidiaries of such Person or joint ventures as a result of such Sale Transaction.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 1009 shall be the principal executive, financial or accounting officer of the Company.

"Operating Property" means any retail store, warehouse, distribution center, office, land or other facility or real property owned or used by the Company or any Subsidiary having an area (including all floor area) in excess of 30,000 square feet in the aggregate; provided that any parcel of land (including all facilities and improvements thereon) which is owned by the Company or any Subsidiary of the Company and no part of which is used by the Company or any Subsidiary of the Company of the Company shall not constitute an Operating Property until such time as any such use, construction or development begins.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company and who may be Godfrey & Kahn, S.C., Milwaukee, and who shall be reasonably acceptable to the Trustee.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

- (i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities in accordance with Section 401; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;
- (iii) Securities for whose payment or redemption money or U.S. Government Obligations in the necessary amount has been theretofore deposited with the Trustee (or another trustee satisfying the requirements of Section 609) in trust for the Holders of such Securities in accordance with Section 403; and

(iv) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon acceleration of the Maturity thereof pursuant to Section 502, (ii) the principal amount of Security denominated in one or more foreign currencies or currency units shall be the U.S. dollar equivalent, determined in the manner provided as contemplated by Section 301 on the date of original issuance of such Security, of the principal amount (or, in the case of an Original Issue Discount Security, the U.S. dollar equivalent on the date of original issuance of such Security of the amount determined as provided in (i) above) of such Security, and (iii) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"pari passu", when used with respect to the ranking of any indebtedness of any Person in relation to other indebtedness of such Person, means that each such indebtedness (a) either (i) is not subordinate in right of payment to any other indebtedness of such Person or (ii) is subordinate in right of payment to the same indebtedness of such Person as is the other and is so subordinate to the same extent and (b) is not subordinate in right of payment to the other or to any indebtedness of such Person as to which the other is not so subordinate.

"Paying Agent" means any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Sale and Leaseback Transaction" of any Person means an arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by such Person of any Operating Property that, within 12 months of the start of such lease and after the Reference Date, has been or is being sold, conveyed, transferred or otherwise disposed of by such Person to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property. The term of such arrangement, as of any date (the "measurement date"), shall end on the date of the last payment of rent or any other amount due under such arrangement on or prior to the first date after the measurement date on which such arrangement may be terminated by the lessee, at its sole option, without payment of a penalty. "Sale Transaction" means any such sale, conveyance, transfer or other disposition. The "Reference Date" means, for any property that becomes an Operating Property after, or the construction or development of which is underway on and completed after, March 12, 1992, the last day of the 24th month after the date of the acquisition, completion of construction and commencement of operation of such property and, for any other property, March 12, 1992.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as

the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" of any Person means (i) a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person or (ii) any other Person (other than a corporation) in which such Person, one or more other Subsidiaries of such Person and one or more other Subsidiaries of such Person, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof.

"Tangible Assets" of any Person means, at any date, the gross book value as shown by the accounting books and records of such Person (maintained in accordance with generally accepted accounting principles) of all its property both real and personal, less (i) the net book value of all its licenses, patents, patent applications, copyrights, trademarks, trade names, goodwill, non-compete agreements or organizational expenses and other like intangibles, (ii) unamortized indebtedness discount and expenses, (iii) all reserves for depreciation obsolescence, depletion and amortization of its properties, and (iv) all other proper valuation reserves which in accordance with generally accepted accounting principles should be provided in connection with the business conducted by such Person; provided, however, that, with respect to the Company and its Consolidated Subsidiaries, adjustments following the date of this Indenture to the accounting Principles Board Opinions Nos. 16 and 17 (or successor opinions thereto) or otherwise resulting, in each case, from the acquisition of control of the Company by another Person shall not be given effect.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"U.S. Government Obligations" means securities which are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a

depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

Section 102. Compliance Certificates and Opinions

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include

- (1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 103. Form of Documents Delivered to Trustee

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Holders; Record Dates

- (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.
- (b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgements of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity

- other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.
- (c) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders of Securities of any series entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders of Securities of such series. If not set by the Company prior to the first solicitation of a Holder of Securities of such series made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 701) prior to such first solicitation or vote, as the case may be. With regard to any record date for action to be taken by the Holders of one or more series of Securities, only the Holders of Securities of such series on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.
 - (d) The ownership of Securities shall be proved by the Security Register.
- (e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

Section 105. Notices, Etc., to Trustee and Company

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

- (1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Department, or
- (2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company, to the attention of the Treasurer with a copy to the Secretary.

Section 106. Notice to Holders; Waiver

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 107. Conflict with Trust Indenture Act

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the Trust Indenture Act provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 108. Effect of Headings and Table of Contents

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 109. Successors and Assigns

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 110. Separability Clause

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. Benefits of Indenture

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or legal or equitable right, remedy or claim under this Indenture.

Section 112. Governing Law

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of New York, but without regard to principles of conflicts of laws.

Section 113. Legal Holidays

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of the Securities of any series which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

ARTICLE TWO

Security Forms

Section 201. Forms Generally

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 202. Form of Face of Security

[if the Security is a Global Security, insert — Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (the "Depositary"), to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of the Depositary, ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR THE INDIVIDUAL SECURITIES REPRESENTED HEREBY, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.]

[if the Security is an	Original Issue Discount Sec	curity, insert— FOR PURPOSES
OF SECTIONS 1272, 1273 AND	1275 OF THE UNITED ST	TATES INTERNAL REVENUE
CODE OF 1986, AS AMENDED		
THIS SECURITY IS % C		
$\overline{, 19}$ [,]	[AND] THE YIELD TO M	MATURITY IS %[, THE
METHOD USED TO DETERM	INE THE YIELD IS	AND THE
AMOUNT OF ORIGINAL ISSUE	DISCOUNT APPLICABL	E TO THE SHORT ACCRUAL
PERIOD OF	, 19 TO	, 19 IS %
OF THE PRINCIPAL AMOUNT	OF THIS SECURITY].	<u> </u>
	-	
S	HOPKO STORES, INC.	•
No		<u> </u>
ShopKo Stores, Inc.	, a corporation duly organiz	ed and existing under the laws of
Minnesota (herein called the "Com		
Indenture hereinafter referred t		
		or registered assigns, the principal
sum of		Dollars on
	<u>fi</u>	f the Security is to bear interest

prior to Maturity, insert—, and to pay interest thereon from or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on ______ and _____ and (to the extent that the hereof is paid or made available for payment [if applicable, insert—, and (to the extent that the payment of such interest shall be legally enforceable) at the rate of ______% per annum on any overdue principal and premium and on any overdue installment of interest]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the or (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee. notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture). [If the Security is not to bear interest prior to Maturity, insert—The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal of this Security shall bear interest at the rate of when per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such default in payment to the date payment of such principal has been made or duly provided for. Interest on any overdue principal shall be payable on demand. Any such interest on any overdue principal that is not so paid on demand shall bear interest at the rate of (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such demand for payment to the date payment of such interest has been made or duly provided for, and such interest shall also be payable on demand.] Payment of the principal of (and premium, if any) and [if applicable, insert—any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in _____, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert—; provided, however, that at the option of the Company payment of interest may be made by check mailed on or prior to an Interest Payment Date to the address of the Person entitled thereto as such address shall appear in the Security Register].

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:	SHOPKO STORES, INC.
	Ву
Attest:	
Section 203.	Form of Reverse of Security
	This Security is one of a duly authorized issue of securities of the Compa

(herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 15, 1993 (herein called the "Indenture"), between the Company and First Trust National Association, as Trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This

Security is one of the series designated on the face hereof[, limited in aggregate principal amount

[If applicable, insert—The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [if applicable, insert—(1) on _______ in any year commencing with the year _____ and ending with the year _____ through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [on or after ______, 19___], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal

amount): If redeeme	ed [on or before	,%, an	d if redeemed] during the
12-month period beginning of the		indicated,	
<u>Year</u>	Redemption Price	<u>Year</u>	Redemption Price
and thereafter at a R	Redemption Price equal to%	of the principa	al amount, together in the
case of any such red	lemption [if applicable, insert— (v	whether throug	h operation of the sinking
	vith accrued interest to the Redemp		
	n or prior to such Redemption Dat r more Predecessor Securities, of		
	es as referred to on the face hereo		
	plicable, insert— The Securities of		
the year and	s' notice by mail, (1) on throug	h operation of	f the sinking fund for this
series at the Redemp	tion Prices for redemption through	oneration of the	he sinking fund (expressed
	e principal amount) set forth in the		
], as a whole or in part,		
	for redemption otherwise than		
	ntages of the principal amount) se		
during the 12-month	period beginning	of the years i	ndicated,
•		•	
	Redemption Price For		emption Price For
	Redemption Through Operation		ption Otherwise Than rough Operation
	of the		of the
<u>Year</u>	Sinking Fund		Sinking Fund
			•.
and thereafter at a R	Redemption Price equal to%	of the princip	al amount, together in the
case of any such redemption (whether through operation of the sinking fund or otherwise) with			
accrued interest to the	he Redemption Date, but interest	installments wi	hose Stated Maturity is on
or prior to such Redemption Date will be payable to the Holders of such Securities, or one or			

as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance

with generally accepted financial practice) of less than % per annum.]

order in which they become due].]

[The sinking fund for this series provides for the redemption on _______ in each year beginning with the year ______ and ending with the year ______ of [not less than \$_____ ("mandatory sinking fund") and not more than] \$_____ aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [mandatory] sinking fund payments may be credited against subsequent [mandatory] sinking fund payments otherwise required to be made [in the inverse

[If the Security is subject to redemption, insert— In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If the Security is not an Original Issue Discount Security, insert— If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert— If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to —insert formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal and overdue interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series,

to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registerable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this Series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$_____ and only integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 204. Form of Trustee's Certificate of Authentication

The Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

FIRST TRUST NATIONAL ASSOCIATION, as Trustee

By		
	Authorized Officer	<u> </u>

ARTICLE THREE

The Securities

Section 301. Amount Unlimited; Issuable in Series

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

- (2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);
- (3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;
- (4) the date or dates on which the principal of the Securities of the series is payable;
- (5) the rate or rates at which the Securities of the series shall bear interest, or the method or methods by which such rate or rates shall be determined, if any, the date or dates from which such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable and the Regular Record Date for any interest payable on any Interest Payment Date;
- (6) the place or places where the principal of and any premium and interest on Securities of the series shall be payable;
- (7) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;
- (8) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- (9) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Securities of the series shall be issuable;
- (10) the currency, currencies or currency units in which payment of the principal of and any premium and interest on any Securities of the series shall be payable if other than the currency of the United States of America and the manner of determining the equivalent thereof in the currency of the United States of America for purposes of the definition of "Outstanding" in Section 101;

- (11) if the amount of payments of principal of or any premium or interest on any Securities of the series may be determined with reference to an index, the manner in which such amounts shall be determined;
- (12) whether the Securities of the series shall be issued in whole or in part in the form of a Global Security and, in such case, the Depositary with respect to such Global Security or Securities and the circumstances under which any such Global Security may be registered for transfer or exchange, or authenticated and delivered, in the name of a Person other than such Depositary or its nominee, if other than as set forth in Section 305;
- (13) if other than the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or a Holder thereof, in one or more currencies or currency units other than that or those in which the Securities are stated to be payable, the currency, currencies or currency units in which payment of the principal of and any premium and interest on Securities of such series as to which such election is made shall be payable, and the periods within which and the terms and conditions upon which such election is to be made;
- (14) if other than the entire principal amount thereof, the portion of the principal amount of Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502; and
- (15) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture, except as permitted by Section 901(5)).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto. The terms of the Securities of any series may provide, without limitation, that the Securities shall be authenticated and delivered by the Trustee on original issue from time to time upon telephonic or written order of persons designated in the Officers' Certificate or supplemental indenture (telephonic instructions to be promptly confirmed in writing by such person) and that such persons are authorized to determine, consistent with such Officers' Certificate or any applicable supplemental indenture, such terms and conditions of the Securities of such series as are specified in such Officers' Certificate or supplemental indenture.

Except as otherwise provided with respect to any series of Securities, at the option of the Company, interest on the Securities of any series that bears interest may be paid by mailing a check, on or before the applicable Interest Payment Date, to the address of the person entitled thereto as such address shall appear in the Securities Register.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 302. Denominations

The Securities of each series shall be issuable in registered form without coupons in such denominations as shall be specified as contemplated by Section 301. In the absence of any such provisions with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of \$1,000 and any integral multiple thereof.

Section 303. Execution, Authentication, Delivery and Dating

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Treasurer or one of its Assistant Treasurers. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established in or pursuant to one or more Board Resolutions as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating:

- (a) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;
- (b) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and
- (c) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such

Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the time of authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 304. Temporary Securities

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable

for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 305. Registration, Registration of Transfer and Exchange

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of that series selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

Notwithstanding the foregoing, no Global Security shall be registered for transfer or exchange, or authenticated and delivered, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, in the name of a Person other than the Depositary for such Global Security or its nominee until (i) the Depositary with respect to a Global Security notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, (ii) the Company executes and delivers to the Trustee a Company Order that such Global Security shall be so transferable and exchangeable, or (iii) there shall have occurred and be continuing an Event of Default with respect to the Securities of such series. Upon the occurrence in respect of any Global Security of any series of any one or more of the conditions specified in clauses (i), (ii) or (iii) of the preceding sentence or such other conditions as may be specified as contemplated by Section 301 for such series, such Global Security may be registered for transfer or exchange for Securities registered in the names of, or authenticated and delivered to, such Persons as the Depositary with respect to such series shall direct.

Except as provided in the preceding paragraph, any Security authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, any Global Security, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall also be a Global Security and bear the legend specified in Section 202.

Section 306. Mutilated, Destroyed, Lost and Stolen Securities

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been

acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. Payment of Interest; Interest Rights Preserved

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed

payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. Persons Deemed Owners

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

Section 309. Cancellation

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of as directed by a Company Order.

Section 310. Computation of Interest

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

ARTICLE FOUR

Satisfaction and Discharge

Section 401. Satisfaction and Discharge of Indenture

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

- (A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or
- (B) all such Securities not theretofore delivered to the Trustee for cancellation
 - (i) have become due and payable, or

- (ii) will become due and payable at their Stated Maturity within one year, or
- (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

- (2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and
- (3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money or U.S. Government Obligations shall have been deposited with the Trustee in accordance with Section 403 or 404, the obligations of the Company to the Trustee under Section 402(b), and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 402. Application of Trust Money.

(a) Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401, all money and U.S. Government Obligations deposited with the Trustee pursuant to Section 403 or 404 and all money received by the Trustee in respect of U.S. Government Obligations deposited with the Trustee pursuant to Section 403 or 404, shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with or received by the Trustee or to make mandatory sinking fund payments or analogous payments as contemplated by Section 403 or 404.

- (b) The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against U.S. Government Obligations deposited pursuant to Section 403 or 404 or the interest and principal received in respect of such obligations other than any payable by or on behalf of Holders.
- (c) The Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 403 or 404 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are then in excess of the amount thereof which then would have been required to be deposited for the purpose for which such money or U.S. Government Obligations were deposited or received.

Section 403. Defeasance and Discharge of Securities of any Series

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The Company may elect, at its option by Board Resolution at any time, to have this Section 403 be applicable to Securities of any series. Upon the Company's exercise of the option to have this Section 403 applied to Securities of any series, then notwithstanding Section 401, the Company shall be deemed to have paid and discharged the entire indebtedness on all the Outstanding Securities of that series, the provisions of this Indenture as it relates to such Outstanding Securities (except as to the rights of Holders of Securities to receive, from the trust funds described in subparagraph (1) below, payment of the principal of (and premium, if any) and any installment of principal of (and premium, if any) or interest on such Securities on the Stated Maturity of such principal or installment of principal or interest or any mandatory sinking fund payments or analogous payments applicable to the Securities of that series on the day on which such payments are due and payable in accordance with the terms of the Indenture and of such Securities, the Company's obligations with respect to such Securities under Sections 305, 306, 1002 and 1003 and the rights, powers, trusts, duties and immunities of the Trustee hereunder) shall no longer be in effect, and the Trustee, at the expense of the Company, shall, upon Company Request, execute proper instruments acknowledging the same, provided that the following conditions have been satisfied:

(1) the Company has deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of Section 609), irrevocably (irrespective of whether the conditions in subparagraphs (2), (3), (4), (5), (6), (7) and (8) below have been satisfied, but subject to the provisions of Section 402(c) and the last paragraph of Section 1003), as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Securities of that series, with reference to this Section 403, (A) money in an amount, or (B) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide not later than the opening of business on the due date of any payment referred to in clause (i) or (ii) of this subparagraph (1) money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification

thereof delivered to the Trustee, to pay and discharge (i) the principal of (and premium, if any) and each installment of principal (and premium, if any) and interest on such Outstanding Securities on the Stated Maturity of such principal or installment of principal or interest and (ii) any mandatory sinking fund payments or analogous payments applicable to Securities of such series on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities;

- (2) such deposit will not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound, which breach, violation or default is material to the interests of the Holders of the Securities of that series;
- (3) no Event of Default or event which with the giving of notice or lapse of time, or both, would become an Event of Default with respect to the Securities of that series (other than an Event of Default under Section 501(4) with respect to any of Sections 1005 through 1008, inclusive, and Section 801) shall have occurred and be continuing on the date of such deposit and no Event of Default under Section 501(6) or Section 501(7) or event which with the giving of notice or lapse of time or both, would become an Event of Default under Section 501(6) or Section 501(7) shall have occurred and be continuing on the 91st day after such date;
- (4) the Company has delivered to the Trustee an Opinion of Counsel to the effect that the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or there has been a change in the applicable federal income tax law, in either case to the effect that Holders of the Securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred;
- (5) if the Securities of that series are then listed on the New York Stock Exchange, Inc., the Company shall have delivered to the Trustee an Officers' Certificate to the effect that such deposit, defeasance and discharge will not cause such Securities to be delisted;
- (6) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the defeasance and discharge of the entire indebtedness on all Outstanding Securities of any such series as contemplated by this Section have been complied with:
- (7) such deposit, defeasance and discharge shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act; and

(8) such deposit, defeasance and discharge shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940, as amended, unless such trust shall be qualified under such Act or exempt from regulation thereunder.

Section 404. Defeasance of Certain Obligations

The Company may elect, at its option by Board Resolution at any time, to have this Section 404 be applicable to Securities of any series. Upon the Company's exercise of the option to have this Section 404 applied to the Securities of any series, the Company may omit to comply with and shall have no liablity in respect of any term, provision or condition set forth in Sections 1005 through 1008, inclusive (whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein), and Section 501(4) (with respect to any term, provision or condition set forth in Sections 1005 through 1008, inclusive and Section 801) and 501(5) shall be deemed not to be an Event of Default, in each case with respect to the Securities of that series, provided that the following conditions have been satisfied:

- the Company has deposited or caused to be deposited with the (1)Trustee (or another trustee satisfying the requirements of Section 609), irrevocably (irrespective of whether the conditions in subparagraphs (2), (3), (4), (5), (6), (7) and (8) below have been satisfied, but subject to the provisions of Section 402(c) and the last paragraph of Section 1003), as trust funds in trust, specifically pledged as security for. and dedicated solely to, the benefit of the Holders of the Securities of that series, with reference to this Section 404, (A) money in an amount, or (B) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide not later than the opening of business on the due date of any payment referred to in clause (i) or (ii) of this subparagraph (1) money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge (i) the principal of (and premium, if any) and each installment of principal (and premium, if any) and interest on such Outstanding Securities on the Stated Maturity of such principal or installment of principal or interest and (ii) any mandatory sinking fund payments or analogous payments applicable to Securities of such series on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities;
- (2) such deposit will not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound, which breach, violation or default is material to the interests of the Holders of the Securities of that series;
- (3) no Event of Default or event which with the giving of notice or lapse of time, or both, would become an Event of Default with respect to the Securities

of that series (other than an Event of Default under Section 501(4) with respect to any of Sections 1005 through 1008, inclusive, and Section 801) shall have occurred and be continuing on the date of such deposit and no Event of Default under Section 501(6) or Section 501(7) or event which with the giving of notice or lapse of time or both, would become an Event of Default under Section 501(6) or Section 501(7) shall have occurred and be continuing on the 91st day after such date;

- (4) the Company has delivered to the Trustee an Opinion of Counsel to the effect that Holders of the Securities of that series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit or the elimination of the Company's obligations to comply with the terms and provisions as contemplated above and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit and elimination of the Company's obligations to comply as contemplated above had not occurred;
- (5) if the Securities of that series are then listed on the New York Stock Exchange, Inc., the Company shall have delivered to the Trustee an Officers' Certificate to the effect that such deposit and elimination of the Company's obligations to comply as contemplated above will not cause such Securities to be delisted;
- (6) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the defeasance and elimination of the Company's obligations to comply as contemplated above have been complied with;
- (7) such deposit and defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act; and
- (8) such deposit and defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940, as amended, unless such trust shall be qualified under such Act or exempt from regulation thereunder.

Section 405. Reinstatement

If the Trustee or any Paying Agent is unable to apply any money from any deposit under Section 403 or 404 in accordance with Section 402(a) with respect to the Securities of the series entitled thereto by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and such Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 403 or 404 with respect to such Securities until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 402(a) with respect to such Securities in accordance with Section 402(a); provided, however, that if the

Company makes any payment of principal of or any interest on any such Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE FIVE

Remedies

Section 501. Events of Default

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or
- (2) default in the payment of the principal of (or premium, if any) on any Security of that series at its Maturity; or
- (3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or
- (4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or
- (5) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company or any Subsidiary of the Company having an aggregate principal amount outstanding in excess of \$25,000,000, or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any Subsidiary of the Company having an aggregate principal amount outstanding in

excess of \$25,000,000, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay any portion of the principal of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto (which grace period, if such portion of the principal is less than \$5,000,000 in the aggregate, shall be deemed to be no less than 5 days) or shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 10 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

- (6) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or
- proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or
- (8) any other Event of Default provided with respect to Securities of that series.

Section 502. Acceleration of Maturity; Rescission and Annulment

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if any of the Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgement or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

- (1) the Company has paid or deposited with the Trustee a sum sufficient to pay
 - (A) all overdue interest on all Securities of that series,
 - (B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,
 - (C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and
 - (D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 503. Collection of Indebtedness and Suits for Enforcement by Trustee

The Company covenants that if

- (1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or
- (2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgement or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 504. Trustee May File Proof of Claim

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the

Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

Section 505. Trustee May Enforce Claims Without Possession of Securities

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 506. Application of Money Collected

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607; and

SECOND: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively.

Section 507. Limitation on Suits

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

- (1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;
- (2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
- (3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (4) the Trustee for 60 days after its receipt of such notice, request and offer indemnity has failed to institute any such proceeding; and
- (5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or any availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 508. Unconditional Right of Holders to Receive Principal, Premium and Interest

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) any interest on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder:

Section 509. Restoration of Rights and Remedies

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holder shall continue as though no such proceeding had been instituted.

Section 510. Rights and Remedies Cumulative

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. Delay or Omission Not Waiver

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 512. Control by Holders

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture, and
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 513. Waiver of Past Defaults

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

- (1) in the payment of the principal of or any premium or interest on any Security of such series, or
- (2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. Undertaking for Costs

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess cost against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act, provided, that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company.

Section 515. Waiver of Stay or Extension Laws

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

Section 601. Certain Duties and Responsibilities

The duties and responsibilities of the Trustee shall be provided by the Trust Indenture Act and this Indenture. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. Notice of Defaults

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act; provided, however, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 603. Certain Rights of Trustee

Subject to the provisions of Section 601:

- (a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;
- (c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

- (d) the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;
- (e) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.
- (f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and
- (g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 604. Not Responsible for Recitals or Issuance of Securities

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 605. May Hold Securities

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 606. Money Held in Trust

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 607. Compensation and Reimbursement

The Company agrees

- (1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);
- (2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and
- (3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

Section 608. Disqualification; Conflicting Interests

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under the Indenture, dated as of March 12, 1992, between the Company and the Trustee relating to the Company's 8.50% Senior Notes due March 15, 2002 or under the Indenture, dated as of March 12, 1992, relating to the Company's 9.25% Senior Notes due March 15, 2022.

Section 609. Corporate Trustee Required; Eligibility

There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$25,000,000 and its Corporate Trust Office, or an office or agency thereof, in St. Paul, Minnesota or in the Borough of Manhattan, The City of New York. If such Person

publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 610. Resignation and Removal; Appointment of Successor

- (a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.
- (b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.
- (c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

- (1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or
- (2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or
- (3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all securities, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

- If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.
- (f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 611. Acceptance of Appointment by Successor

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

- **(b)** In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture, the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.
- (c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraphs (a) and (b) of this Section, as the case may be.
- (d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 612. Merger, Conversion, Consolidation or Succession to Business

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties

hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 613. Preferential Collection of Claims Against Company

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

Section 614. Appointment of Authenticating Agent

The Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, and State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$25,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

As Trustee	
Зу	
As Authenticating Agent	
Ву	
Authorized Officer	

FIRST TRUST NATIONAL ASSOCIATION.

ARTICLE SEVEN

Holders' Lists and Reports by Trustee and Company

Section 701. Company to Furnish Trustee Names and Addresses of Holders

The Company will furnish or cause to be furnished to the Trustee:

- (a) semi-annually, not later than 15 days after each Regular Record Date for each series of Securities at the time Outstanding, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date (or a date to be determined pursuant to Section 301 for Original Issue Discount Securities); and
- (b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

Section 702. Preservation of Information; Communications to Holders

- (a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.
- (b) The rights of the Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.
- (c) Every Holder of Securities, be receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 703. Reports by Trustee

(a) The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

Section 704. Reports by Company

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

ARTICLE EIGHT

Consolidation, Merger, Conveyance, Transfer or Lease

Section 801. Company May Consolidate, Etc., Only on Certain Terms

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

- (1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety (for purposes of this Article Bight, a "Successor Company") shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;
- (2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or a Subsidiary of the Company as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after

notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

- (3) if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Company or any Subsidiary of the Company would become subject to a Lien which would not be permitted by this Indenture, the Company or if applicable the Successor Company, as the case may be, shall take such steps as shall be necessary effectively to secure the Securities equally and ratably with (or prior to) all Debt secured by such Lien; and
- (4) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 802. Successor Substituted

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

Supplemental Indentures

Section 901. Supplemental Indentures Without Consent of Holders

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

- (2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or
 - (3) to add any additional Events of Default; or
- (4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or
- (5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (i) shall neither (A) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (B) modify the rights of the Holder of any such Security with respect to such provision or (ii) shall become effective only when there is no such Security Outstanding; or
- (6) to secure the Securities pursuant to the requirements of Section 1007 or otherwise; or
- (7) to establish the form or terms of Securities of any series as permitted by Section 201 and 301; or
- (8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or
- (9) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided that such action pursuant to this clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

Section 902. Supplemental Indentures with Consent of Holders

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

- (1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or
- (2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or
- (3) modify any of the provisions of this Section, Section 513 or Section 1010, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1010, or the deletion of this proviso, in accordance with the requirements of Sections 611(b) and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. Effect of Supplemental Indentures

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. Conformity with Trust Indenture Act

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

Section 906. Reference in Securities to Supplemental Indentures

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

Covenants

Section 1001. Payment of Principal, Premium and Interest

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 1002. Maintenance of Office or Agency

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 1003. Money for Securities Payments to Be Held in Trust

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of or any premium or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (i) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (ii) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, and upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 1004. Existence

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

Section 1005. Maintenance of Properties

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary of the Company to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the

Company desirable in the conduct of its business or the business of any Subsidiary of the Company and not disadvantageous in any material respect to the Holders.

Section 1006. Payment of Taxes and Other Claims

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary of the Company or upon the income, profits or property of the Company or any Subsidiary of the Company, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary of the Company; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 1007. Limitation on Liens

(a) The Company shall not, and shall not permit any Subsidiary of the Company to, incur or suffer to exist any Lien upon any Operating Property, or upon any shares of stock of any Subsidiary of the Company (whether such Operating Property or shares are now owned or hereafter acquired), to secure any Debt without making, or causing such Subsidiary to make, effective provision for securing the Securities (and no other indebtedness of the Company or any Subsidiary of the Company except, if the Company shall so determine, any other indebtedness of the Company which is not subordinate in right of payment to the Securities or of such Subsidiary) (x) equally and ratably with such Debt as to such Operating Property or shares for as long as such Debt shall be so secured unless (y) such Debt is Debt of the Company which is subordinate in right of payment to the Securities, in which case prior to such Debt as to such Operating Property or shares for as long as such Debt shall be so secured.

The foregoing restrictions will not apply to Liens existing at the date of this Indenture or to:

- (i) Liens securing only the Securities;
- (ii) Liens in favor of only the Company;
- (iii) Liens on property of a Person existing at the time such Person is merged into or consolidated with the Company or any Subsidiary of the Company (but only to the extent such Liens cover such property);
- (iv) Liens on property existing immediately prior to the time of acquisition thereof (and not in anticipation of the financing of such acquisition);

- (v) any Lien upon an Operating Property (including any property that becomes an Operating Property after acquisition thereof) to secure Debt incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement of the property subject to such Lien; provided, however, that (A) such Operating Property first becomes an Operating Property after, or construction or development of such Operating Property is underway on and completed after, March 12, 1992, (B) the principal amount of any Debt secured by such Lien (1) does not exceed 100% of such purchase price or cost and (2) is incurred not later than 24 months after such purchase or the completion of such construction or improvement, whichever is later, and (C) such Lien does not extend to or cover any other property other than such item of property and any improvements on such item;
- (vi) Liens to secure Debt incurred to extend, renew, refinance or refund (or successive extensions, renewals, refinancing or refundings), in whole or in part, Debt secured by any Lien referred to in the foregoing Clauses (i) to (v) as long as such Lien does not extend to any other property and the original amount of the Debt so secured in not increased; and
- (vii) any Lien securing Debt owing by the Company to a wholly owned Subsidiary of the Company (provided that such Debt is at all times held by a Person which is a wholly owned Subsidiary of the Company); provided, however, that for purposes of this Section 1007 and 1008 hereof, upon either (A) the transfer or other disposition of a Debt secured by a Lien so permitted to a Person other than the Company or another wholly owned Subsidiary of the Company or (B) the issuance (other than directors' qualifying shares), sale, lease, transfer or other disposition of shares of capital stock of any such wholly owned Subsidiary to a Person other than the Company or another wholly owned Subsidiary of the Company, the provisions of this Clause (vii) shall no longer be applicable to such Lien and such Lien shall be subject (if otherwise subject) to the requirements of this Section 1007 without regard to this Clause (vii).
- (b) In addition to the foregoing, the Company and its Subsidiaries may incur and suffer to exist a Lien to secure any Debt or enter into a Sale and Leaseback Transaction without equally and ratably securing the Securities if, after giving effect thereto, the sum of (i) the principal amount of Debt secured by all Liens incurred after the date of this Indenture and otherwise prohibited by this Indenture and (ii) the Attributable Value of all Sale and Leaseback Transactions entered into after the date of this Indenture and otherwise prohibited by this Indenture does not exceed 15% of the Consolidated Tangible Assets of the Company.
- (c) If the Company shall hereafter be required under this Section 1007 to make (or cause to be made) effective provision for securing the Securities, then (i) the Company will promptly deliver to the Trustee an Officers' Certificate and Opinion of

Counsel stating that this Section 1007 has been complied with and that any instruments executed by the Company or any Subsidiary of the Company in the performance of this Section 1007 shall comply with the requirements hereof, and (ii) the Trustee is hereby authorized to enter into an indenture or agreement supplemental hereto and to take such action, if any, as it may deem advisable to enable it to enforce the rights of the Holders of the Securities as so secured.

Section 1008. Limitation on Sale and Leaseback Transactions

The Company shall not, and shall not permit any Subsidiary of the Company to, enter into any Sale and Leaseback Transaction (except for a period not exceeding 36 months) unless:

- (1) The Company or such Subsidiary would be entitled to enter into such Sale and Leaseback Transaction pursuant to the provisions of Section 1007(b) hereof without equally and ratably securing the Securities; or
- (2) The Company or such Subsidiary applies or commits to apply, within 60 days before or after the Sale Transaction pursuant to such Sale and Leaseback Transaction, an amount equal to the Net Available Proceeds therefrom to the repayment of indebtedness of the Company which is pari passu with the Securities or, if all such indebtedness has been repaid, the repayment of other indebtedness of the Company or, if all such other indebtedness has been repaid, the repayment of indebtedness of any Subsidiary of the Company; provided that the amount to be applied or committed to the repayment of such indebtedness shall be reduced by (a) the principal amount of any Securities delivered within 60 days before or after such Sale Transaction to the Trustee for retirement and cancellation, and (b) the principal amount of such indebtedness as is voluntarily retired by the Company within 60 days before or after such Sale Transaction (it being understood that no amount so applied or committed and no Securities so delivered or indebtedness so retired may be counted more than once for such purpose); provided, further, that no repayment or retirement referred to in this Clause (2) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

Section 1009. Statement of Officers as to Default

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 1010. Waiver of Certain Covenants

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1007 and 1008 with respect to the Securities of any series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE ELEVEN

Redemption of Securities

Section 1101. Applicability of Article

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of any series) in accordance with this Article.

Section 1102. Election to Redeem; Notice to Trustee

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or by action taken pursuant to a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date, of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 1103. Selection by Trustee of Securities to Be Redeemed

If less than all the Securities of any series are to be redeemed (unless all of the Securities of such series and of a specified tenor are to be redeemed), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities

of such series of a denomination larger than the minimum authorized denomination for Securities of that series. If less than all of the Securities of such series and of a specified tenor are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 1104. Notice of Redemption

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price,
- (3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption of any Securities, the principal amounts) of the particular Securities to be redeemed,
- (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,
- (5) the place or places where such Securities are to be surrendered for payment of the Redemption Price, and
 - (6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

Section 1105. Deposit of Redemption Price

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 1106. Securities Payable on Redemption Date

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

Section 1107. Securities Redeemed in Part

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

Sinking Funds

Section 1201. Applicability of Article

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 1202. Satisfaction of Sinking Fund Payments with Securities

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 1203. Redemption of Securities for Sinking Fund

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 and not more than 60 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such

notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

SHOPKO STORES, INC.

By Shellower

FIRST TRUST NATIONAL ASSOCIATION

By

Attest:

notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

SHOPKO STORES, INC.

Ву		
-	-	

Attest:

FIRST TRUST NATIONAL ASSOCIATION

By

·
STATE OF WISCONSIN) SS.: COUNTY OF
On the 25th day of Agust, 1993, before me personally came Ddu l. Kraven, to me known, who, being by me duly sworn, did depose and say that he is President of Shopko Stores, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.
STATE OF MINNESOTA) COUNTY OF RAMSEY) SS.:
On the25th day of _August, 1993, before me personally came Frank P. Leslie III, to be known, who, being by me duly sworn, did depose and say that he is _Ass't Vice President of First Trust National Association, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the Seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

MARY K. REBER

NOTARY PUBLIC - MINNESOTA

RAMSEY COUNTY

My Commission Expires Feb. 10, 1998

SHOPKO STORES, INC.

1993 RESTRICTED STOCK PLAN AS AMENDED

I. PURPOSE

The purpose of the Shopko Stores, Inc. 1993 Restricted Stock Plan (the "Plan") is to provide a means whereby Shopko Stores, Inc., a Minnesota corporation (the "Company"), and its Subsidiaries may attract able persons to enter the employ of the Company and to provide a means whereby those key employees can acquire and maintain stock ownership, thereby strengthening their concern for the long-term welfare of the Company and their desire to remain in its employ. A further purpose of the Plan is to provide such key employees with additional incentive and reward opportunities designed to enhance the profitable growth of the Company over the long term.

II. DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

- (a) "Award" means any Restricted Stock Award.
- (b) "Board" means the Board of Directors of ShopKo Stores, Inc.
- (c) "Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.
- (d) "Committee" means the Compensation and Stock Option Committee of the Board.
- (e) "Common Stock" means the common stock, par value \$.01 per share, of ShopKo Stores, Inc.
 - (f) "Company" means ShopKo Stores, Inc.
 - (g) "Change of Control" shall mean any of the following events:
 - (i) The acquisition by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, other than the Company or any of its wholly owned subsidiaries, or any employee benefit plan of the Company and/or one or more of its wholly owned subsidiaries, directly or indirectly, of beneficial ownership (within the meaning of Rule 13d-3

promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities in a transaction or series of transactions not approved in advance by a vote of at least three-quarters of the Continuing Directors (as hereinafter defined); or

- (ii) Individuals who, as of July 1, 1993, constitute the Board of Directors of the Company (generally the "Directors" and as of July 1, 1993 the "Continuing Directors") cease for any reason to constitute at least a majority thereof, provided that any person becoming a Director subsequent to July 1, 1993 whose nomination for election was approved in advance by a vote of at least three-quarters of the Continuing Directors (other than a nomination of an individual whose initial assumption of office is in connection with an actual or threatened solicitation with respect to the election or removal of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be deemed to be a Continuing Director; or
- (iii) The approval by the stockholders of the Company of a reorganization, merger, consolidation, liquidation or dissolution of the Company or of the sale (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company other than a reorganization, merger, consolidation, liquidation, dissolution or sale approved in advance by a vote of at least three-quarters of the Continuing Directors; or
- (iv) The first purchase under any tender offer or exchange offer (other than an offer by the Company or any of it subsidiaries) pursuant to which shares of Common Stock are purchased.

Notwithstanding anything herein to the contrary, a pro rata distribution or an exchange offer by Supervalu, Inc. to its stockholders of its interest in such voting securities of the Company, or the sale of voting securities of the Company in a registered public offering, shall not constitute a Change of Control hereunder. Following the occurrence of an event which does not constitute a Change of Control whereby there is a successor holding company to the Company, or, if there is no successor, whereby the Company is not the surviving company or successor holding company (as the case may be), for purposes of this definition, shall thereafter be referred to as the Company.

- (h) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (i) "Fair Market Value" means, as of any specified date, the closing price of the Common Stock on the New York Stock Exchange (or, if the Common Stock is not then listed on such exchange, such other national securities exchange on which the Common Stock is then listed) on that date, or if no prices are reported on that date, on the last

preceding date on which such prices of the Common Stock are so reported. If the Common Stock is not then listed on any national securities exchange but is traded over the counter at the time a determination of its Fair Market Value is required to be made hereunder, its Fair Market Value shall be deemed to be equal to the average between the reported high and low sales prices of Common Stock on the most recent date on which Common Stock was publicly traded, If the Common Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its Fair Market Value shall be made by the Committee in such manner as it deems appropriate.

- (j) "Holder" means an employee of the Company who has been granted an Award.
- (k) "Parent Corporation" shall have the meaning set forth in Section 424(e) of the Code.
 - (1) "Plan" means the ShopKo Stores, Inc. 1993 Restricted Plan.
- (m) "Restricted Stock Award" means an Award granted to an eligible individual under the Plan.
- (n) "Rule 16b-3" means Rule 16b-3 of the general Rules and Regulations of the Securities and Exchange Commission under the Exchange Act, as such rule is currently in effect or as hereafter modified or amended.
 - (o) "Subsidiary" shall have the meaning set forth in Section 424(f) of the Code.

III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall be effective upon the date of its adoption by the Board, provided the Plan is approved by the stockholders of the Company within twelve months thereafter and on or prior to the date of the first annual meeting of stockholders of the Company held subsequent to the acquisition of an equity security by a Holder hereunder for which exemption is claimed under Rule 16b-3. Notwithstanding any provision of the Plan or in any Restricted Stock Award, no restrictions in any Restricted Stock Award shall lapse prior to such stockholder approval. No further Awards may be granted under the Plan after ten years from the date the Plan is adopted by the Board. Subject to the provisions of Article VIII, the Plan shall remain in effect until all restrictions imposed upon all Restricted Stock Awards hereunder have lapsed.

IV. ADMINISTRATION AND TERMS

- (a) Composition of Committee. The Plan shall be administered by the Committee which shall be constituted so as to permit the Plan to comply with Rule 16b-3.
- (b) Powers. The Committee shall have sole authority, in its discretion, to determine which employees of the Company and its Subsidiaries shall receive an Award, the time or times when such Award shall be made, and the number of shares of Common Stock which may be issued under each Award. In making such determinations the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contribution to the Company's success and such other factors as the Committee in its discretion shall deem relevant. At the time a Restricted Stock Award is made, the Committee shall establish a period of time (the "Restricted Period") applicable to such Award. Each Restricted Stock Award may have a different Restricted Period, in the discretion of the Committee. The Restricted Period applicable to a particular Restricted Stock Award shall not be changed except as permitted by Paragraph (c) of this Article or by Article VIII.
- (c) Other Terms and Conditions. Common Stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Holder of such Restricted Stock Award or, at the option of the Company, in the name of a nominee of the Company. The Holder share have the right to receive dividends during the Restricted Period, to vote the Common Stock subject thereto and to enjoy all other stockholder rights, except that (i) the Holder shall not be entitled to possession of the stock certificate until the Restricted Period shall have expired, (ii) the Company shall retain custody of the stock during the Restricted Period, (iii) the Holder may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the stock during the Restricted Period and (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Award shall cause a forfeiture of the Restricted Stock Award. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms, conditions or restrictions relating to Restricted Stock Awards, including, but not limited to, rules pertaining to the termination of employment (by retirement, disability, death or otherwise) of a Holder prior to expiration of the Restricted Period.
- (d) Payment for Restricted Stock. A Holder shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law and except that the Committee may, in its discretion, charge the Holder an amount in cash not in excess of the par value of the shares of Common Stock issued under the Plan to the Holder.
- (e) Miscellaneous. Nothing in this Article shall prohibit the exchange of shares issued under the Plan (whether or not then subject to a Restricted Stock Award) pursuant to a plan of reorganization for stock or securities in the Company or another corporation a party to the reorganization, but the stock or securities so received for shares then subject to the restrictions of a Restricted Stock Award shall become subject to the restrictions of such Restricted Stock

Award. Any shares of stock received as a result of a stock split or stock dividend with respect to shares then subject to a Restricted Stock Award shall also become subject to the restrictions of the Restricted Stock Award.

(f) Additional Powers. The Committee shall have such additional powers as are delegated to it by the other provisions of the Plan. Subject to the express provisions of the Plan, the Committee is authorized to construe the Plan and the respective agreements executed thereunder, to prescribe such rules and regulations relating to the Plan as it may deem advisable to carry out the Plan, and to determine the terms, restrictions and provisions of each Award, and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in any agreement relating to an Award in the manner and to the extent it shall deem expedient to carry it into effect. The determinations of the Committee on the matters referred to in this Article IV shall be conclusive.

V. SHARES SUBJECT TO THE PLAN

- (a) Award Limits. The Committee may from time to time grant Awards to one or more employees determined by it to be eligible for participation in the Plan in accordance with the provisions of Article VI. The aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 200,000. Any of such shares which remain unissued and which are not subject to outstanding Awards at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company shall at all times reserve a sufficient number of shares to meet the requirements of the Plan. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that the rights of a Holder terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award. The aggregate number of shares which may be issued under the Plan shall be subject to adjustment in the manner provided in Article VIII.
- (b) Stock Offered. The stock to be offered pursuant to the grant of an Award may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company.

VI. ELIGIBILITY

Awards made pursuant to the Plan may be granted only to individuals who, at the time of grant, are key employees of the Company or any Parent Corporation or Subsidiary of the Company. Awards may not be granted to any director of the Company who is not an employee of the Company or to any member of the Committee. An Award made pursuant to the Plan may be granted on more than one occasion to the same person. Each Award shall be evidenced by a written instrument duly executed by or on behalf of the Company.

VII. RECAPITALIZATION OR REORGANIZATION

- (a) Except as hereinafter otherwise provided, Restricted Stock Awards and any agreements evidencing such Awards shall be subject to adjustment by the Committee at its discretion as to the number of shares of Common Stock subject to such Awards in the event of changes in the outstanding Common Stock by reason of stock dividends, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any such Awards.
- (b) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities having any priority or preference with respect to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.
- (c) Plan provisions to the contrary notwithstanding, with respect to any Restricted Stock Awards outstanding at the time a Change of Control occurs, the Committee may, in its discretion, provide (i) for full vesting of all Common Stock awarded to the Holders pursuant to such Restricted Stock Awards as of the date of such Change of Control and (ii) that all restrictions applicable to such Restricted Stock Award shall terminate as of such date.

VIII. AMENDMENT OR TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan or alter or amend the Plan or any part thereof from time to time; provided that no change in any Award theretofore granted may be made which would impair the rights of the Holder without the consent of the Holder, and provided, further, that the Board may not, without approval of the stockholders, amend the Plan:

- (a) to increase the aggregate number of shares which may be issued pursuant to the provisions of the Plan or pursuant to Restricted Stock Awards, except as provided in Article VII;
- (b) to change the class of employees eligible to receive Awards or increase materially the benefits accruing to employees under the Plan
- (d) to extend the maximum period during which Awards may be granted under the Plan;
- (e) to modify materially the requirements as to eligibility for participation in the Plan; or
- (f) to decrease any authority granted to the Committee hereunder in contravention of Rule 16b-3.

X. OTHER

- (a) No Right To An Award. Neither the adoption of the Plan nor any action of the Board or of the Committee shall be deemed to give an employee any right to a Restricted Stock Award or any other rights hereunder except as may be evidenced by an Award duly executed on behalf of the Company, and then only to the extent of and on the terms and conditions expressly set forth therein. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the payment of any Award.
- (b) No Employment Rights Conferred. Nothing contained in the Plan or in any Award made hereunder shall (i) confer upon any employee any right with respect to continuation of employment with the Company or any Subsidiary or (ii) interfere in any way with the right of the Company or any Subsidiary to terminate his or her employment at any time.
- (c) Other Laws, Withholding. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the offering of the shares covered by such Award has not been registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments necessary to enable it to satisfy its withholding obligations. The Committee may permit the Holder of an Award to elect to surrender, or authorize the Company to withhold, shares of Common Stock (valued at their Fair Market Value on the date of surrender or withholding of such shares) in satisfaction of the Company's withholding obligation, subject to such restrictions as the Committee deems necessary to satisfy the requirements of Rule 16b-3.

- (d) No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action which is deemed by the Company or such Subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No employee, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.
- (e) Restrictions on Transfer. An Award shall not be transferable otherwise than by will or the laws of descent and distribution. The written instrument evidencing an Award shall specify the effect of the death of the Holder on the Award.
- (f) Rule 16b-3. It is intended that the Plan and any grant of an Award made to a person subject to Section 16 of the Exchange Act meet all of the requirements of Rule 16b-3. If any provision of the Plan or any such Award would disqualify the Plan or such Award under, or would otherwise not comply with, Rule 16b-3, such provision or Award shall be construed or deemed amended to conform to Rule 16b-3.
- (g) Governing Law. This Plan shall be construed in accordance with the laws of the State of Wisconsin, except to the extent that it implicates matters which are the subject of the Business Corporation Law of the State of Minnesota which matters shall be governed by the latter law.

Effective: April 12, 1994

Shopko Stores, Inc. and Subsidiaries Exhibit 11 - Computation of Earnings Per Common and Common Equivalent Share (In Thousands, Except Per Share Data)

	Fiscal Years Ended				
		February 26, 1994	1993	,	February 29, 1992
•	_	(52 Weeks)	(52 Weeks)		(53 Weeks)_
PRIMARY: Net earnings	\$	32,122	\$ <u>50,059</u>	<u>.</u> \$	49,589
Weighted average number of outstanding common shares		32,001	32,000	 =	21,120
Net earnings per common share - primary (1)	\$	1.00	\$ <u>1.56</u>	<u>.</u> \$	2.35
FULLY DILUTED: Net earnings	\$	32,122	\$50.059	<u>}</u> \$	49,589
Weighted average number of outstanding common shares		32,001	32,000)	21,120
Number of common shares issuable assuming exercise of stock options		8		_	
Weighted average number of outstanding common and common equivalent shares - assuming full dilution		32,009	32,000)	21,120
Net earnings per common share - assuming full dilution (1)	\$	1.00	\$ <u>1.5</u> 6	<u>`</u> \$	2.35

⁽¹⁾ Earnings per share are computed by dividing net earnings by the weighted average number of outstanding common and common share equivalents.

ShopKo Stores, Inc. and Subsidiaries Exhibit 12 - Statements Re Computation of Ratios (in Thousands, Except Per Share Data)

	<u> </u>		Fiscal Y	ears Ended		
		bruary 26, 1994 2 Weeks)	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)	February 24, 1990 (52 Weeks)
Ratio of Earnings to Fixed Charges Computation of Earnings		2 110000)	(02 1100111)	(00 110010)	(OZ WOOKA)	(02 110010)
Pretax income Add previously capitalized interest	\$	52,889 \$	81,453	81,246 \$	73,539 \$	70,318
amortized during the period 3 Less interest capitalized during		418	338	283	230	175
the period		2,140	1,061	1,149	1,000	1,200
4 Total earnings (sum of lines 1 to 3)		51,167	80,730	80,380	72,769	69,293
Computation of Fixed Charges						
5 Interest (1)		23,557	19,335	18,361	22,337	21,284
6 Interest factor in rental expense	·	1,908	1,838	2,191	2,050	1,950
7 Total fixed charges (sum of lines 5 and 6)		25 <i>,</i> 465	21,173	20,552	24,387	23,234
8 TOTAL EARNINGS AND FIXED CHARGES (line 4						
plus line 7)	\$ <u></u>	76,632 \$	101.903	\$ <u>100,932</u> \$	97,156	92,527
9 Ratio (line 8 divided by line 7)		3.0	4.8	4.9	4.0	4.0

⁽¹⁾ includes capitalized interest



Liscal Year United February 26, 1994

on the future
full speed ahead to
Vision 2000.



SHOPKO IS

... Committed to becoming our customers' primary store by offering quality merchandise and service to meet their day-to-day fashion, home, health and family needs with style – at prices they feel good about.

... A true alternative to discount and department stores. Our focus on mainstream America lets us concentrate on understanding and cultancing our customers' lifestyles. Our size lets us remain flexible and adapt to our customers' changing needs.

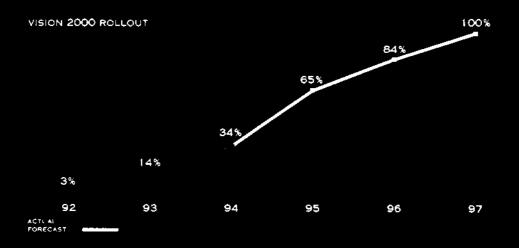
... Absolutely conviaced that being truly customer-oriented will keep us first in the enstoner's mind and will be rewarding to all our stakeholders. As our customers' primary store, it is our goal not only to satisfy them, but to excite them every time they visit us,

FINANCIAL HIGHLIGHTS

ShopKo Stores, Inc. and Subsidiaries	Fiscal years ended				
	February 26.	February 27			
	1994	1993			
(In thousands, except per share data)	(52 weeks)	(52 weeks)			
Net Sales	\$ 1,738,746	\$ 1,682,854			
Net Earnings	32,122	50.059			
Net Earnings Per Common Share	1.00	1.56			
Dividends Per Common Share	0.44	0.44			
Shareholders' Equity	\$ 373,706	\$ 355,480			
Stores Open at Year End	117	111			

NET SALES

85 86 87 88 89 90 91 92 93 94 NOTE: FISCAL YEARS 1985 AND 1986 ARE UNAUDITED. FISCAL YEARS 1987 AND 1992 ARE 53 WEEK YEARS.







Dale P. Kramer President and Chief Executive Officer

"We're particularly excited about our VISION 2000 focus and the early results from our new stores!"

TO OUR SHAREHOLDERS

For a company accustomed to record sales and earnings for over a decade, fiscal 1994 (year ending February 26, 1994) was very disappointing. In a difficult year for retailers, an overly aggressive sales plan led to increased promotional activity, with a negative impact on earnings made worse by spring rains and flooding, slow economic recovery, and a soft apparel market. Also, we underestimated the impact and time involved in converting from decentralized to centralized management systems, a move that will make us much more efficient in the long term. As a result, the performance improvements we expected to see immediately have been emerging more gradually. However, because of the quality of our inventory and a stronger sales performance in the fourth quarter, we believe we ended the year positioned to return to significant growth.

Sales for the year were \$1.74 billion, reflecting a 3.3 percent increase over the \$1.68 billion sales for the prior year. Comparable store sales increased by 1.2 percent. Net earnings were \$32.1 million, compared to \$50.1 million in the previous year. These earnings translate into \$1.00 per share, compared to the prior year's \$1.56 per share.

Despite our disappointing financial performance, there were a number of important accomplishments. First, we made significant progress in our store expansion and remodeling program. ShopKo opened six new stores, relocated two, and remodeled 16, bringing 34 percent of our chain into the VISION 2000 format.

We also implemented a host of new systems, processes, and management initiatives. These include new vendor standards to enhance the quality of our merchandise and the use of our expanded distribution centers to flow goods to the stores more efficiently. We improved our cashiering service and productivity levels. We added highly efficient new pharmacy and optical systems. Maintaining our leadership in health care services, we

launched ProVantage, a new prescription management service for group health care providers. We reengineered the operation of our central optical lab. Our Gallup Customer Satisfaction Program helped us better focus on customer needs. We retained a new advertising agency to communicate our VISION 2000 focus to customers and deliver greater cost efficiency in our media purchases.

The most important factor in our success, however, will always be people. A number of exceptional managers were promoted and several accomplished individuals were hired, solidifying our management team. Their talents and leadership are key as we continue the transition to centralization and VISION 2000. We are deeply thankful to our associates, who contributed their fullest efforts all year long.

ShopKo continues to face challenges in the coming year: competition and an accelerated remodeling schedule will keep pressure on margins. We've had to make some substantial investments to implement the VISION 2000 strategy: these will exert pressures on fixed expenses and borrowing. But these investments, combined with our improved merchandise assortments, position us as attractive to value-conscious customers. We anticipate the benefits of this positioning will only continue to grow.

We've redefined our market position, our product and our merchandising strategy. We've assembled and refined the knowledge and resources to implement this strategy. The opportunities are great. Our focus has never been stronger. And our commitment to achieving our vision is absolute.

ale P Kramer

Sincerely,

Dale P. Kramer

President and Chief Executive Officer

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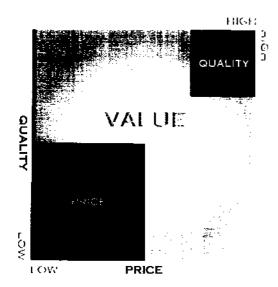
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O MAXIMIZING NEW TO STORY OF S

When change occurs, winners study it and adapt. In recent years the retail environment has undergone some major changes; ShopKo has responded with a comprehensive strategy for repositioning to achieve continuing growth and greater profitability.

ShopKo initially built its success as a discount store. However, shifting demographics have created significant new opportunities for us. Now there's a growing demand for

IN BROAD TERMS, TODAY'S RETAIL ENVIRONMENT CONSISTS OF THREE SEGMENTS:
ONE FOCUSED ON LOW PRICE, ANOTHER
ON PREMIUM QUALITY, AND THE THIRD ON
VALUE. SHOPKO HAS THE OPPORTUNITY TO
LEAD IN VALUE.



more value, better product quality, greater variety, timely fashion, and more service—provided at attractive, but not necessarily rock-bottom, prices. We're prepared not only to meet that demand, but to dominate the substantial market it represents in the small to mid-size communities we serve.

In broad terms, today's retail environment consists of three segments. At the bottom is the "price" segment, appealing to consumers willing to compromise in product quality and shopping environment in order to get the lowest possible price. In contrast, at the top is the "quality" segment, appealing to a relatively small number of affluent consumers who place a priority on fashion, quality, and service and who are willing to pay a premium price. In the middle is the "value" segment. We believe that this segment offers the greatest opportunities for ShopKo.

What is the source of these new opportunities?

A growing number of consumers who became accustomed to better quality and more fashion choices in the 1980s are now having families and refocusing their financial priorities. They still demand a broader selection of better quality products, a higher taste level, a more attractive, upscale shopping environment, and more responsive customer service than they find in price-driven stores. But they're also very budget-conscious. These are the customers of value-driven stores like ShopKo.

It's true that retail competition has increased. However, our new strategy turns this challenge into an opportunity. The largest and most aggressive retailer competing in our markets is Wal-Mart. But its strengths, strategy and merchandising are driven firmly by price. As a value-driven retailer, ShopKo can and does operate profitably side-by-side with Wal-Mart, meeting a different taste level and capturing a different and growing category of business. Together, we form a new destination area in small and mid-sized markets, where we help keep retail business in town rather than losing it to metropolitan areas.

Selection and value are key elements in our strategy to differentiate ShopKo from discounters focused exclusively on low price. New brand names that customers want, greater variety, and high quality merchandise ensure ongoing product appeal.

The VISION 2000 ShopKo store employs upscale merchandising techniques to communicate our emphasis on style and quality.

Our primary customer is female, age 25 to 50, with a household income level of \$20,000 to \$50,000. She's typically married, and has children or soon will. With her higher than average education and busy lifestyle, she demands quality, fashion, attentive fast service, and respect, while seeking a value price.



THE CORE STRATEGY

VISION 2000 is our strategy for achieving a new position of strength in the "value" segment of the marketplace. This strategy has a number of components, all designed to work together in establishing ShopKo firmly as a highly profitable growth retailer.

At the center of our VISION 2000 strategy are four areas of excellence: fashion, home, health and family products.

WHEN CUSTOMERS ENTER A VISION 2000 STORE, THEY IMMEDIATELY RECOGNIZE THAT WE'RE OFFERING MERCHANDISE AT A HIGHER TASTE LEVEL, YET THEY FIND OUR PRICES COMPATIBLE WITH THEIR NEED FOR VALUE.

To encourage consumers to shop our entire store rather than just one category, it's critical that we present a consistent quality level across all four areas. We're devoting a great deal of attention to achieving this goal by actively planning our merchandise assortments, studying consumer responses, and fine-tuning our offerings.

One component of VISION 2000 is the use of improved merchandising techniques. With attractive fixtures, displays, and overall presentation, our new and remodeled stores have the look and feel of quality rather than the austere look that identifies "price" segment retailers. Customers entering our stores know immediately that our merchandise is geared toward better quality and a higher taste level.

The merchandise fulfills this expectation and reinforces our differentiation. Because of our size and flexibility, we can respond quickly to market demands and still achieve purchasing efficiencies. Our products are contemporary, their quality standards are high, and they are available in greater variety. The introduction of a number of quality brand names and private label merchandise contributes to

the quality and differentiation of our product offerings. Yet consumers also find our prices compatible with their need for value.

We've redefined our product emphasis to yield greater profitability, shifting away from categories where we have limited ability to differentiate ourselves, such as automotive products and hardware, and expanding higher margin apparel and home furnishings departments. Today, our new category of consumers is more willing and able to spend on soft merchandise. By increasing the focus in this direction we'll improve our margin mix, allowing us to remain price competitive in such traffic categories as health and beauty aids.

Our strategy to establish ShopKo in its new market position also includes a level of customer service that clearly differentiates us from the competition. Along with merchandising, product, and pricing considerations, we can appeal to today's consumers by enhancing their shopping experience. They want staff readily available to answer their questions. They associate quality with such amenities as a pleasant, easy-to-shop environment, ample merchandise in stock, and little or no checkout waiting time. ShopKo is committed to delivering such service.

Realization of the VISION 2000 strategy is well under way. The key requirements are adding new stores, remodeling our existing stores, enhancing our quality in fashion and customer service, fully centralizing our management for maximum efficiency, and maintaining high awareness of our goals throughout the organization.

Today's consumers value time spent with their families, and want products that will fit in with their busy schedules and fast-paced lifestyles.

We're adding new vendors to create a merchandise mix that meets the demand for high taste level products and provides high profit margins.

Our knowledgeable and friendly VISION 2000 sales associates are readily available when customers have questions or need assistance.



implementation

We made great strides toward implementing the VISION 2000 strategy last year. Having completed a significant expansion of our distribution capabilities, we were able to accelerate our store expansion and remodeling program. With six new stores, two relocated stores and 16 remodels, a third of our entire chain is now using the VISION 2000 format.

The difference VISION 2000 makes is tangible and exciting to consumers—and the

WE ARE SEEING EARLY INDICATIONS OF THE POWER OF THE VISION 2000 STRAT-EGY, AND EXPECT CONTINUED PERFORM-ANCE IMPROVEMENT.

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results are exciting for ShopKo. Our new merchandising techniques showcase products, making them more visible and appealing to customers than ever before.

We are also using the VISION 2000 format more effectively with the implementation of new systems and technologies. Our investment two years ago resulted in three outstanding warehouse and distribution facilities. Today, more than 70 percent of our main store merchandise purchases flow through these distribution centers, enabling us to operate at a lower cost while better meeting the merchandise needs of all our stores.

We strengthened our partnership with vendors, improving our vendor structure and mix, implementing new quality standards to upgrade our merchandise, and working more closely with suppliers to provide product differentiation at competitive prices.

We also enhanced our customer service at a lower cost. We increased our checkout speed while reducing our costs by intensifying training in cashiering techniques. Our new state-of-the-art pharmacy and optical systems let us serve customers more quickly and efficiently. Process improvements in our central optical lab increased productivity and reduced the amount of work sent to outside vendors. We began offering same-day optical lab service in new and remodeled stores, improving our efficiency in processing prescriptions. And we introduced ProVantage, a unique prescription management service and mail service pharmacy which, combined with our already successful retail health care operations, allows us to deliver an unparalleled level of comprehensive pharmacy and optical services to group benefit managers.

Our Gallup program to measure customer service performance in all of our stores, pharmacies and optical centers has focused our associates on what is really important to customers.

Our new advertising agency began communicating VISION 2000 to customers with the campaign, "We'll help you make more of the magic" last Christmas, highlighting ShopKo's strength in seasonal categories, upgraded merchandising and service.

We are encouraged by early sales indications of the success of VISION 2000. By implementing this strategy, we have accelerated our sales and moved into a more differentiated merchandise mix. Stores remodeled last year that weren't affected by competitive openings delivered positive comparable sales increases of 5 percent over the previous year, without increases in the physical size of the stores. We believe this is an early indication of the power of our new strategy. We expect this performance to continue to improve as our customers embrace our new format.

With a clearly focused management team, we look forward to reaping the rewards of last year's accomplishments and investments as we lay the groundwork for even greater rewards ahead. With our new purchasing and distribution systems, we're bringing products into our stores more efficiently.

By providing high value, our health care area has become extremely profitable.

Consumers trust the quality of our health care products, and appreciate the convenience and personalized service they receive when purchasing them from ShopKo.



WE'RE FOCUSED ON THE FUTURE

The transition into our new, differentiated market position is gaining momentum, and we're confident that it's the appropriate direction for achieving our long-term goals.

Merchandise repositioning requires time to yield its full rewards: time for fine-tuning our new central functions, for integrating our suppliers into the strategy, and for consumers to learn to look to ShopKo for the new,

WE ARE GROWING INTO THE FUTURE BY EMPHASIZING OUR STRENGTHS IN A DIRECTION THAT IS CLEARLY APPROPRIATE FOR SHOPKO. AS OUR TRANSITION TO VISION 2000 GAINS MOMENTUM, WE EXPECT SIGNIFICANT PERFORMANCE INCREASES.

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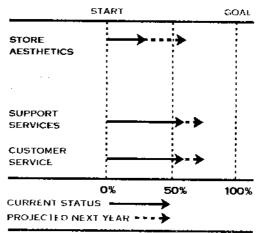
greater value we offer. Next year will continue to be a transitional period, and we anticipate challenges. Nevertheless, we expect our performance to improve significantly as VISION 2000 implementation progresses.

We're committed to moving ahead aggressively with the remodeling of 34 of our stores in the coming year. By the 1994 holiday season, nearly two-thirds of all ShopKo stores will be using the VISION 2000 format, and we expect to complete the store transition by fiscal 1997. We believe remodeling acceleration will maximize the sales from existing stores and drive comparable store increases by leading with our four areas of excellence. In addition, we believe expense controls in payroll, advertising, and central processes will have a positive impact on our profitability.

We continue every day to raise the level of quality, fashion, and value throughout our stores. We're also enhancing our service delivery through extensive training of sales associates, a policy of replenishing stores before shopping hours so that associates can focus on assisting customers during the shopping day. We're poised to raise consumer awareness of our VISION 2000 strategy, too: beginning with the upcoming back-to-school season, our new communication strategy, positioning ShopKo as "The Store for You," will spread the message that we're uniquely prepared to meet our customers' need for high value shopping.

We are growing into the future, cmphasizing the strengths necessary for our long-term success: the size and market penetration necessary to drive our sales and profitability goals; the flexibility and agility needed to deliver freshness, excitement, and value in our products; and the clear vision to keep us on course.

PROGRESS TO DATE IN OVERALL STRATEGY



By accelerating our store remodels, we're rapidly implementing our new VISION 2000 focus.

At ShopKo, Christmas is fresh and exciting—thanks to our VISION 2000 focus and our ability to offer high value.

Family time is accentuated most during the holidays and special seasons. With our new advertising and merchandising programs, we're capturing customers' attention— and more sales.



MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis includes periods when the Company operated as a wholly owned subsidiary of SUPERVALU INC. It should be read in conjunction with the Company's consolidated financial statements and notes.

RESULTS OF OPERATIONS

The following table sets forth items from the Company's Consolidated Statements of Earnings as a percentage of net sales:

Fiscal years ended

	Feb. 26, 1994 (52 Wks.)	1993	Feb. 29, 1992 (53 Wks.)		
Revenues:		· <u> </u>	`		
Net sales	100.0%	100.0%	100.0%		
Licensed department					
rentals and other income	e .7	.7	.7		
Costs and expenses:					
Cost of sales	74,2	73.0	72.7		
Selling, general and					
administrative expenses	22.3	21.8	22.0		
Interest expense	1.2	1.1	1.1		
Earnings before income taxes	s 3.0	4.8	4.9		
Provision for income taxes	1.2	1.8	1.9		
Net earnings	1.8%	3.0%	3.0%		

Fiscal 1994 Compared to Fiscal 1993

Net sales for fiscal 1994 increased \$55.9 million or 3.3%, over fiscal 1993. The Company opened 8 new stores in fiscal 1994 (including 2 relocated stores).

Comparable store sales increased 1.2% for fiscal 1994 compared to 1.5% in fiscal 1993. Management believes that comparable store sales were negatively impacted by unfavorable economic conditions, increased competition, lower consumer confidence and unseasonable spring weather. Comparable store sales increases for a fiscal year are based upon those stores which were open for the entire preceding fiscal year including any relocated stores.

Gross margin as a percentage of sales was 25.8% and 27.0% for fiscal 1994 and 1993, respectively. Pre-tax LIFO expense was \$3.7 million for fiscal 1994 as compared to \$1.8 million for fiscal 1993. Gross margins,

before LIFO expense, were 26.1% in fiscal 1994 as compared to 27.1% in fiscal 1993. The Company attributes the decrease in gross margin percent to the continuation of competitive pricing pressure in the discount marketplace, increased promotional activity, and lower than expected sales in various apparel and seasonal categories.

Selling, general and administrative expenses increased 0.5% of net sales to 22.3% compared with 21.8% in fiscal 1993. The percentage increase is due to low comparable sales growth, increased costs related to the Company's new stores, remodeling programs and continued investment in centralizing certain merchandise and replenishment functions.

Interest expense in fiscal 1994 increased from the prior year by 0.1% to 1.2% of net sales. The increase is primarily due to increased borrowings, partially offset by lower long-term borrowing rates.

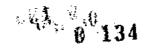
The effective tax rate for fiscal 1994 increased to 39.3% as compared to 38.5% for fiscal 1993. The increase is the result of the passage of the Omnibus Budget Reconciliation Act of 1993. Accordingly, the Company recorded additional tax expense of \$0.8 million or \$0.03 per share.

Fiscal 1993 Compared to Fiscal 1992

Net sales for fiscal 1993 (52 weeks) increased \$34.4 million or 2.1%, over fiscal 1992 (53 weeks). On a 52 week basis, the sales increase was 3.6%. Increases in net sales reflect new store openings, sales growth at existing stores and inflation. The Company opened 3 new stores in fiscal 1993 (including one relocated store).

Comparable store sales increased 1.5% for fiscal 1993 compared to 1.7% (on a 52 week basis) in fiscal 1992. Management attributes the lower increase in comparable store sales in fiscal 1993 primarily to increased competition from national competitors as well as lower inflation. Comparable store sales increases for a fiscal year are based upon those stores which were open for the entire preceding fiscal year including any relocated stores.

Gross margin as a percentage of sales was 27.0% and 27.3% for fiscal 1993 and 1992, respectively. Pretax LIFO expense was \$1.8 million for fiscal 1993 as



MANAGEMENT DISCUSSION AND ANALYSIS

compared to \$5.3 million for fiscal 1992. Gross margins, before LIFO expense, were 27.1% in fiscal 1993 as compared to 27.6% in fiscal 1992.

Selling, general and administrative expenses decreased 0.2% of net sales to 21.8% compared with 22.0% in fiscal 1992. The decrease is due to overall expense control.

Interest expense in fiscal 1993 remained at 1.1% of net sales.

The effective tax rate for fiscal 1993 decreased to 38.5% as compared to 39.0%. The decrease is attributable to a reduction in state income taxes.

Accounting Changes

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes."

SFAS No. 106 requires the Company to accrue the estimated cost of retiree benefits, other than pensions, during employees' active service period. The Company elected to immediately recognize the accumulated postretirement benefit obligation, resulting in a charge to earnings of \$0.6 million or \$0.02 per share.

SFAS No. 109, which requires the Company to use the liability method of computing deferred income taxes, had no effect on reported net earnings.

LIQUIDITY AND CAPITAL RESOURCES

The Company relies primarily on cash generated from its operations, with the remaining needs being met from short-term and long-term borrowings. Cash provided from net earnings before depreciation and amortization was \$79.5 million, \$93.3 million and \$90.0 million in fiscal 1994, 1993, and 1992, respectively. The Company's principle uses of cash are for the purchase of property and equipment and increases in working capital.

Working capital increased to \$118.8 million at the end of fiscal 1994 from \$81.8 million at the end of fiscal 1993 and \$78.8 million at the end of fiscal 1992. The

increase in working capital in fiscal 1994 resulted principally from increases in inventory (net of accounts payable) as a result of the 6 additional stores opened in fiscal 1994 plus the 5 stores that opened the first week of fiscal 1995.

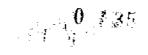
On October 4, 1993, the Company replaced its \$107.5 million revolving credit agreement with a \$175.0 million revolving line of credit. This credit agreement is with a consortium of banks, is unsecured and has a term of three years, subject to an extension for an additional year. As of February 26, 1994, the Company had \$26.2 million outstanding under the new revolving credit agreement. The weighted average interest rate on borrowings under the revolving credit agreements for fiscal 1994 was 3.4%.

On August 25, 1993, the Company issued \$100 million 6.5% senior unsecured notes due August 15, 2003 in the public bond market. The net proceeds of \$98.7 million, after underwriting and issuance costs, were used to reduce the Company's short-term debt, for working capital needs and for other general corporate purposes.

On March 12, 1992, the Company issued \$100 million 8.5% senior unsecured notes due March 15, 2002 and \$100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The net proceeds of \$197.1 million, after underwriting and issuance costs, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU INC. of \$181.2 million with the remainder being used for working capital and other general corporate purposes.

Capital Expenditures

The Company spent \$133.8 million on capital expenditures in fiscal 1994, compared to \$91.1 million in fiscal 1993 and \$53.4 million in fiscal 1992. The increase in capital expenditures in fiscal 1994 resulted principally from new store expansion and management information and point of sale equipment and systems, offset by reductions from distribution centers due to completion of that expansion project.



The following table sets forth the components of the Company's actual capital expenditures (in millions):

	Fiscal year			
	1994	1993	1992	
New stores	\$ 82.4	\$ 32.9	\$ 25.4	
Remodeling and refixturing	29.4	24.7	8.0	
Distribution centers	.7	21.9	12.8	
Management information an point-of sale equipment	d			
and systems	20.1	10.5	6.6	
Other	1.2	1.1	.6	
Total	\$133.8	\$ 91.1	\$ 53.4	

A portion of capital expenditures (such as land, site preparation and building construction) is made for new stores in one or more fiscal years prior to their opening. The fiscal year in which such expenditures occur varies depending on the timing of the store opening.

The Company opened 8 new stores (including 2 relocated stores) and remodeled 16 other stores in fiscal 1994. Present plans are to open 7 new stores and remodel 34 other stores in fiscal 1995. Management also anticipates opening 10 new stores in fiscal 1996. The Company's plans with respect to store openings and remodeling may be reviewed and revised from time to time in light of changing conditions. In certain instances, the Company's ability to proceed with projects is subject to successful negotiation of site acquisitions or leases and

the availability of financing, and the timing of projects is subject to normal construction and other delays. Thus, it is possible that not all of the projects described above will be commenced and that other projects will be added. The Company's total capital expenditures for new stores, remodels and management information systems is not anticipated to exceed \$150.0 million in fiscal 1995.

In comparison to periods of slower expansion, accelerated expansion increases certain of the Company's expenses, particularly pre-opening costs, depreciation and interest expense. The relative increase in these expenses as a percentage of sales is also impacted by the delay between the incurrence of the expenses and the realization of expected sales growth due to such expenditures.

Pursuant to a shelf registration statement filed in the second quarter of fiscal 1994, the Company has available an additional \$100 million of debt securities it may sell in the public market. This available debt financing, together with the existing \$175 million revolving credit agreement and funds generated from operations, are expected to be sufficient to fund the projected total capital expenditure and working capital needs through fiscal 1995.

Inflation

Inflation has not had a significant effect on the results of operations of the Company or its internal and external sources of liquidity.

ShopKo Stores, Inc. and Subsidiaries

						Fisca	al y	ears endec	1					
	1	eb. 26, 1994(1) 2 Weeks)		eb.27, 1993 Weeks)		eb. 29, 1992 Weeks)		eb. 23, 1991	19	eb. 24 990(2)		eb. 25, 1989		eb. 27, 1988 Weeks)
Summary of Operations (Millions		2 Weeks)	(JZ	weeks)	(33	W CCKS)	(32	Weeks)	(32	weeks)	(32	Weeks)	(32	weeks)
Net sales		1,739		1,683		1,648	¢	1,521	¢	1,420	•	1,248	•	1,051
Licensed department rentals and	4	1,737	Ф	1,005		1,040	ф	1,321	.p	1,420	ب	1,240	ф	1,051
other income		12		11		11		12		11		10		9
Gross margin		449		454		450		415		394		358		296
Selling, general and		447		434		450		413		377		336		290
administrative expenses		387		366		363		333		315		291		244
Interest expense		21		18		303 17		333 21		20		16		13
Earnings before income taxes		53		81		81		73		70		61		48
-		32		50		50		45		43		37		
Net earnings Per Share Data (Dollars)		32			:			4,)		4.7		31		27
	•	100		1.54		1.55(0)		1.41/3	•	1 33/3	. ф	1.15(0)		0.05(0)
Net earnings per common share Cash dividends declared per	\$		\$	1.56	\$	1.55(3)) 3	1,41(3))	1.33(3)	\$	1.15(3)) 5	0.85(3)
common share (4)		0.44		0.44		0.11								
Financial Data (Millions)			- -											
Working capital	\$		8	82	\$	79	\$		\$	59	\$	57	\$	37
Property and equipment-net		578		493		445		432		412		369		313
Total assets		953		792		706		692		648		576		485
Total debt (5)		337		225		193		215		237		231		193
Shareholders' equity		374		355		320		273		228		186		149
Capital expenditures		134		91		53		59		80		91		88
Depreciation and amortization		47		43_		40		39		35		31		25
Financial Ratios														
Current ratio		1.5		1.4		1.4		1.4		1.3		1.4		1.3
Return on beginning assets		4.1%		7.1%		7.2%		7.0%		7.4%		7.6%		6.9%
Return on beginning														
shareholders' equity		9.0%		15.7%		18.1%		19.7%		22,9%		24.8%		22.3%
Total debt as % of total capitalizat	ion ((6) 46.2 %		37.9%		36.7%		42.8%		50.0%		53.9%		54.9%
Other Year End Data		<u> </u>				·		·						
Stores open at year end		117		111		109		104		98		87		75
Average store size-square feet		90,440	1	39,500	1	87,400		87,200	8	87,000	1	85,900	1	34,700

⁽¹⁾ The effect of adopting Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," resulted in a decrease in net carnings of \$0.6 million (\$0.02 per share). Adoption of SFAS No. 109, "Accounting for Income Taxes," had no effect on reported net earnings or financial position.

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⁽²⁾ Includes the effect of a change in the method of accounting for LIFO inventories which increased net earnings by \$3.0 million.

⁽³⁾ The number of common shares used in the computation is the total number of shares of the Company's Common Stock outstanding upon completion of the initial public offering.

⁽⁴⁾ First quarterly dividend was declared in the fourth quarter of fiscal 1992.

⁽⁵⁾ Total debt includes short-term debt, current portion of long-term obligations, long-term obligations and payable to related party.

⁽⁶⁾ Total capitalization includes shareholders' equity, total debt and non-current deferred income taxes.

CONSOLIDATED STATEMENTS OF EARNINGS

ShopKo Stores, Inc. and Subsidiaries

	Fiscal years ended					
(In thousands, except per share data)		ebruary 26, 1994 52 Weeks)		bruary 27, 1993 2 Weeks)		onuary 29, 1992 3 Weeks)
Revenues:	<u>\</u>	77 CERG)	(5)	2 11 CCR3)	(.)	2 WEEKS)
Net sales	\$	1,738,746	\$	1,682,854	\$ 1	1,648,427
Licensed department rentals and other income		11,859		11,462		11,627
		1,750,605		1,694,316	, I	,660,054
Costs and expenses:						
Cost of sales		1,289,259]	1,228,431	1	,198,726
Selling, general and administrative expenses		387,040		366,158		362,870
Interest expense		21,417		18,274		17,212
		1,697,716	1	1,612,863	1	,578,808
Earnings before income taxes		52,889		81,453		81,246
Provision for income taxes		20,767		31,394		31,657
Net earnings	\$	32,122	S	50,059	S	49,589
Net earnings per common share	\$	1.00	\$	1.56	\$	2.35
Weighted average number of common shares outstanding		32,001		32,000		21,120
Supplemental net earnings per common share					s	1.55
Supplemental number of common shares outstanding						32,000



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See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	February 26, 1994	February 27, 1993
Assets		
Current Assets:		
Cash	\$ 2,570	\$ 2,792
Receivables, less allowance for losses of		
\$2,133 and \$1,578, respectively	30,324	21,070
Merchandise inventories	328,854	263,333
Other current assets	8,759	9,133
Total current assets	370,507	296,328
Other assets and deferred charges	4,361	2,329
Property and equipment – net	578,181	493,068
Total assets	\$ 953,049	\$ 791,725

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Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable - trade	\$ 147,152	\$ 125,783
Accrued compensation and related taxes	21,851	21,830
Accrued other liabilities	42,812	37,683
Accrued income and other taxes	12,849	13,409
Short-term debt	26,200	15,025
Current portion of long-term obligations	879	822
Total current liabilities	251,743	214,552
Long-term obligations	309,604	208,922
Deferred income taxes	17,996	12,771
Shareholders' equity:		
Preferred stock; none outstanding		
Common stock; Shares outstanding, 32,016		
in 1994 and 32,000 in 1993	320	320
Additional paid-in capital	242,978	242,793
Retained earnings	130,408	112,367
Total shareholders' equity	373,706	355,480
Total liabilities and shareholders' equity	\$ 953,049	\$ 791,725

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ShopKo Stores, Inc. and Subsidiaries

	Fiscal years ended					
		ebruary 26, 1994		bruary 27, 1993	February 29 1992	
(In thousands)	(.	52 Weeks)	(5	2 Weeks)	(53 Weeks)
Cash flows from operating activities:					-	. •
Net earnings	\$	32,122	\$	50,059	\$	49,589
Adjustments to reconcile net earnings to net						
cash provided by operating activities:						
Depreciation and amortization		47,336		43,275		40,372
Provision for losses on receivables		63		143		139
Gain on the sale of property and equipment		(1,410)		(240)		(120)
Deferred income taxes		5,995		(68)		(3,899)
Change in assets and liabilities:						,,,
Receivables		(9,317)		(3,926)		(430)
Merchandise inventories		(65,521)		(30,122)		2,016
Other current assets		(397)		(1,213)		(1,031)
Other assets		(1,025)		(558)		(2)00.2)
Accounts payable		21,369		9,258		(13,859)
Accrued liabilities		4,590		8,649		3,675
Net cash provided by operating activities		33,805		75,257		76,452
Cash flows from investing activities:						
Payments for property and equipment		(133,842)		(91,060)		452 201V
Proceeds from the sale of property and equipment		4,644		408		(53,391) 1,327
Net cash (used in) investing activities	_	(129,198)		(90,652)	_	(52,064)
Cash flows from financing activities:						
Net proceeds from long-term obligations		98,714		107 113		
Proceeds from short-term debt		11,175		197,112		
Issuance of common stock		185		15,025		240.020
Dividends paid		(14,080)		(14.000)		240,830
Reduction in capital lease obligations				(14,080)		(240,830)
Payments to related party		(823)		(784)		(1,446)
				(181,167)		(22,867)
Net cash provided by (used in) financing activities		95,171	_	16,106		(24,313)
Net (decrease) increase in cash		(222)		711		75
Cash at beginning of year	-	2,792		<u>2,</u> 081		2,006
Cash at end of year	\$	2,570	\$	2,792	\$	2,081
Supplemental cash flow information:						
Noncash investing and financial activities -						
Capital lease obligations incurred	\$	1,769	\$		\$	1,871
Cash paid during the period for:	-	_,-	*		Ψ	1,071
Interest	\$	23,248	\$	15,642	\$	18,339
Income taxes	\$	15,467	\$	31,879	\$	
	~	209701	ф	21,017	3	42,430

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See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ShopKo Stores, Inc. and Subsidiaries

	Commo	on Stock	Additional Paid-in	Retained
(In thousands, except per share data)	Shares	Amount	Capital	Earnings
Balances at February 23, 1991	14,750	\$ 1	2,282	\$271,149
Net earnings				49,589
Stock split effected in the form of stock dividend		147	(147)	
Cash dividend paid to parent prior to initial public offering				(240,830)
Cash dividends declared on common stock - \$0.11 per share				(3,520)
Sale of common stock	17,250	172	240,658	
Balances at February 29, 1992	32,000	320	242,793	76,388
Net earnings				50,059
Cash dividends declared on common stock - \$0.44 per share				(14,080)
Balances at February 27, 1993	32,000	320	242,793	\$112.367
Net earnings				32,122
Issuance of common stock	16		185	
Cash dividends declared on common stock – \$0.44 per share				(14,081)
Balances at February 26, 1994	32,016	\$320	\$242,978	\$130,408

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ShopKo Stores, Inc. and Subsidiaries

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation:

The consolidated financial statements include the accounts of Shopko Stores, Inc. and its wholly owned subsidiaries ("Shopko" or the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company, which is a Minnesota corporation, was incorporated in 1961. On October 16, 1991, the Company sold 17,250,000 common shares or 54% of equity ownership in an initial public offering. Prior to completion of the offering, the Company was a wholly owned subsidiary of Supermarket Operators of America, Inc., ("SOA") which, in turn, is wholly owned by SUPERVALU INC. ("SUPERVALU"). As of February 26, 1994, 46% of the Company's common stock was owned by SUPERVALU.

Accounting Changes:

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 109, "Accounting for Income Taxes." See Notes D and F.

Accounts Receivable:

Accounts Receivable consist of amounts collectible from merchandise vendors for promotional and advertising allowances, from third party pharmacy insurance carriers, and from store customers for optical, main store layaway, and pharmacy purchases. Substantially all amounts are expected to be collected within one year.

Merchandise Inventories:

Merchandise inventories are stated at the lower of cost or market. Cost, which includes certain distribution and transportation costs, is determined through use of the last-in, first-out (LIFO) method for substantially all inventories. If the first-in, first-out (FIFO) method had been used to determine cost of inventories, the Company's inventories would have been higher by approximately \$39.0 million at February 26, 1994, \$35.3 million at February 27, 1993, and \$33.5 million at February 29, 1992.

Property and Equipment:

Property and equipment are carried at cost. The cost of buildings and equipment is depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally computer and retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated

basis. Useful lives generally assigned are: buildings-25 to 40 years; retail store equipment-8 years; warehouse, transportation and other equipment-3 to 10 years. Costs of leasehold improvements are amortized over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method. Property under capital leases is amortized over the related lease term using the straight-line method. Interest on property under construction of \$2.1, \$1.1 and \$1.1 million was capitalized in fiscal years 1994, 1993, and 1992, respectively.

The components of property and equipment are (in thousands):

	Feb. 26, 1994	Feb. 27, 1993
Property and equipment at cost:		,
Land	\$111,149	\$102,394
Buildings	400,185	352,426
Property under construction	26,495	8,664
Leasehold improvements	41,836	40,914
Equipment	262,604	221,454
Property under capital leases	14,599	14,216
	856,868	740,068
Less accumulated depreciation and amortization:		
Property and equipment	271,626	239,344
Property under capital leases	7,061	7,656
Net property and equipment	\$578,181	\$493,068

Accounts Payable:

Accounts payable include \$10.7 and \$5.4 million at February 26, 1994 and February 27, 1993, respectively, of issued checks which had not cleared the Company's bank accounts, reduced by deposits in transit and cash on deposit in the Company's depository banks.

Pre-opening Costs:

Pre-opening costs of retail stores are charged against earnings in the year of the store openings.

Income Taxes:

In fiscal 1994, the amounts reflected in the provision for income taxes are based on applicable federal statutory rates, adjusted for permanent differences between financial and taxable income, in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Prior to fiscal 1994, the provision for income taxes was calculated in accordance with SFAS No. 96, "Accounting for Income Taxes." In fiscal 1992, the Company's results were included in SUPERVALU's consolidated U.S. federal income tax return for the period through completion of the Company's initial public offering on October 16, 1991. All income tax payments were made by SUPERVALU on behalf of its subsidiaries, a portion of which

were allocated to the Company as a charge through the payable to related party account. In effect, the income tax provision was computed on a separate return basis.

Net Earnings Per Share:

Net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding. Outstanding stock options do not have a significant dilutive effect on earnings per share.

Supplemental Net Earnings Per Share:

Supplemental net earnings per share are computed by dividing net earnings by 32,000,000 common shares which represent the actual number of shares outstanding after completion of the offering of common stock.

B. SHORT-TERM DEBT

On October 4, 1993, the Company replaced its \$107.5 million revolving credit agreement with a \$175.0 million revolving line of credit. This revolving line of credit is with a consortium of banks, is unsecured and will expire in three years subject to an extension for an additional year. The Company pays an annual facility and commitment fee of 1/4 of one percent. As of February 26, 1994, the Company had outstanding \$26.2 million under this agreement. The weighted average interest rate on borrowings under the credit agreements for fiscal 1994 was 3.4%.

C. LONG-TERM OBLIGATIONS AND LEASES

(In thousands)	Feb. 26, 1994	Feb. 27, 1993
Senior Unsecured Notes, 8.5%		
due March 15, 2002, less		
unamortized discount of \$295		
and \$332 respectively	\$ 99,705	\$ 99,668
Senior Unsecured Notes, 9.25%		
due March 15, 2022, less		
unamortized discount of \$537		
and \$556 respectively	99,463	99,444
Senior Unsecured Notes, 6.5%		
due August 15, 2003, less		
unamortized discount of \$263	99,737	
Industrial Revenue Bond, 6.4%	•	
due May 1, 2008	1,000	1,000
Capital lease obligations	10,578	9,632
	310,483	209,744
Less current portion	879	822
Long-term obligations	\$309,604	\$208,922

On August 25, 1993, the Company issued \$100 million 6.5% senior unsecured notes due August 15, 2003 in the public bond market. The notes provide for semi-annual interest payments payable on August 15 and February 15 of each year. There is no sinking fund requirement and

the notes are not redeemable prior to maturity. The net proceeds of \$98.7 million, after underwriting and issuance costs, were used to reduce the Company's short-term debt, for working capital needs and for other general corporate purposes.

On March 12, 1992, the Company issued \$100 million 8.5% senior unsecured notes due March 15, 2002 and \$100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The notes provide for semi-annual interest payments payable on June 15 and December 15 of each year. There is no sinking fund requirement and the notes are not redeemable prior to maturity. The net proceeds of \$197.1 million, after underwriting and issuance costs, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU of \$181.2 million with the remainder being used for working capital and other general corporate purposes.

The notes contain certain covenants which, among other things, restrict the ability of the Company to consolidate, merge or convey, transfer or lease its properties and assets substantially as an entirety, to create liens or to enter into sale and leaseback transactions.

The underwriting and issuance costs of all the long-term obligations are being amortized over the terms of the notes using the straight-line method. At February 26, 1994 and February 27, 1993, \$2.6 million and \$1.8 million remained to be amortized over future periods. Amortized expense for these costs was \$0.2 million and \$0.1 million for 1994 and 1993, respectively.

The Company leases certain stores under capital leases. Many of these leases include renewal options, and occasionally, include options to purchase.

Amortization of property under capital leases was \$0.8, \$0.9 and \$1.4 million in fiscal years 1994, 1993, and 1992, respectively. Minimum future obligations under capital leases in effect at February 26, 1994 are as follows (in thousands):

Year	Lease Obligations
1995	\$ 1,955
1996	1,735
1997	1,705
1998	1,612
1999	1,615
Later	10,215
Total minimum future obligations	18,837
Less interest	8,259
Present value of minimum future obligations	\$10,578

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.4% to 13.4%, with a weighted average of

10.1%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was \$1.0, \$1.1 and \$1.1 million in 1994, 1993, and 1992, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was \$0.5, \$0.6 and \$0.7 million in 1994, 1993, and 1992, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for land and buildings. Minimum future obligations under operating leases in effect at February 26, 1994 are as follows (in thousands):

Year	Lease Obligations	
1995	\$ 3,204	
1996	3,151	
1997	3,000	
1998	2,890	
1999	2,446	
Later	50,309	
Total minimum obligations	\$ 65,000	

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was \$2.7, \$2.6, and \$3.1 million in 1994, 1993, and 1992, respectively.

Certain operating leases require payments to be made on an escalating basis. The accompanying consolidated statements of earnings reflect rent expense on a straight-line basis over the term of the leases. An obligation of \$0.8 million and \$0.4 million, representing pro rata future payments, is reflected in the accompanying consolidated balance sheets at February 26, 1994, and February 27, 1993, respectively.

D. INCOME TAXES

Effective at the beginning of fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This statement supersedes SFAS No. 96, "Accounting for Income Taxes". SFAS No. 109, which requires the Company to use the liability method of computing deferred income taxes, had no effect on reported net earnings or financial position.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax liability are as follows (in thousands):

\$ 20,901
6,580
1,575
29,056
(9,902)
(1,416)
(11,318)
\$17,738

The provision for federal and state income taxes included the following (in thousands):

	1994	1993	1992
Current		_	
Federal	\$12,562	\$26,269	\$29,497
State	2,560	5,343	6,207
General business and	•	•	,
other tax credits	(350)	(150)	(148)
Deferred	5,995	(68)	(3,899)
Total provision	\$20,767	\$31,394	\$31,657

The effective tax rate varied from the statutory federal income tax rate for the following reasons:

	1994	1993	1992
Statutory income	_		,
tax rate	35.0%	34.0%	34.0%
State income taxes, net of			
federal tax benefits	4.1	4.4	4.5
Other	0.2	0.1	0.5
Effective income tax rate	39.3%	38.5%	39.0%

During fiscal 1994, enacted changes in the federal income tax laws increased the Company's income tax rate. The liability method of accounting for income taxes requires the effect of a tax rate increase on current and accumulated deferred income taxes to be reflected in the period in which the rate increase was enacted. Accordingly, in fiscal 1994, the Company recorded an additional tax expense of \$0.8 million or \$0.03 per share.

Provision is made for deferred income taxes and future income tax benefits applicable to temporary differences between financial and tax reporting. The

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sources of these differences and the effects of each were as follows (in thousands):

	1994	1993	1992
Excess tax			
(book) depreciation	\$1,398	\$ 254	\$ (540)
LIFO inventory valuation	5,370	(75)	(539)
Bad debt and	•	` •	• •
rcturn reserves	22	291	(1,001)
Other	(795)	(538)	(1,819)
Total Deferred Tax Expense			
(Benefit)	\$5,995	\$ (68)	\$(3,899)

Other temporary differences between financial and tax reporting include amortization and interest relating to capital leases and certain provisions for expenses which are not deducted for tax purposes until paid.

E. PREFERRED AND COMMON STOCK

The Company has 20,000,000 shares of \$0.01 preferred stock authorized but unissued.

There are 75,000,000 shares of \$0.01 par value common stock authorized with 32,016,000 issued and outstanding at February 26, 1994 and 32,000,000 issued and outstanding at February 27, 1993. The Board of Directors approved a 5,900-for-1 common stock split in the form of a stock dividend for shareholders of record on October 15, 1991. Applicable share and per share data have been adjusted for the stock split.

The Company's Stock Option Plan allows the granting of stock options to various officers, directors and other employees of the Company at prices not less than 100 percent of fair market value, determined by the closing price on the date of grant. The Company has reserved 2,400,000 shares for issuance under the plan. These options vest at the rate of 40% on the second anniversary of the grant date and 20% annually thereafter for officers and employees and at the rate of 60% on the second anniversary of the date of grant and 20% annually thereafter for non-employee directors. Changes in the options were as follows (shares in thousands):

	Shares	Price Range
Granted	1,557	\$ 15.00
Canceled and forfeited	(18)	15.00
Outstanding, February 29, 1992	1,539	15.00
Granted	56	15.00 - 16.25
Canceled and forfeited	(90)	15.00
Outstanding, February 27, 1993	1,505	15.00 - 16.25
Granted	627	10.13 - 15.00
Canceled and forfeited	(208)	10.88 - 16.25
Outstanding, February 26, 1994	1,924	10.13 - 16.25
Exercisable at February 26, 1994	531	15.00

F. EMPLOYEE BENEFITS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Substantially all employees of the Company are covered by a defined contribution profit sharing plan. In fiscal 1994, the plan provided for two types of company contributions; an amount determined annually by the Board of Directors and an employer matching contribution, in shares of Company stock, equal to one-half of the first 6% of compensation contributed by participating employees. Previous year's contributions were determined by the discretion of the Board of Directors. Contributions were \$5.6, \$4.4 and \$8.3 million for fiscal years' 1994, 1993, and 1992 respectively.

The Company also has a change of control severance agreement with certain key officers. Under this agreement, the officers are entitled to a lump-sum cash payment equal to a multiple of one, two, or three times their annual salary plus a multiple of one, two, or three times their average annual bonus for the three fiscal years immediately preceding the date of termination.

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the Company to accrue the estimated cost of retiree benefits, other than pensions, during employees' active service period. The cost of these benefits, which are principally health care, was previously expensed as claims were incurred. The Company elected to immediately recognize the accumulated postretirement benefit obligation, resulting in a charge to earnings of \$0.6 million or \$0.02 per share.

The net periodic cost for postretirement benefits during fiscal 1994 includes the following (in thousands):

	1994
Service cost for benefits accumulated	
during the year	\$ 7 7
Interest cost on accumulated	
benefit obligation	60
Net periodic postretirement benefit cost	\$137

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's postretirement health care plans currently are not funded. The accumulated postretirement benefit obligation is as follows (in thousands):

_	February 26, 1994
Retirees	\$ 367
Active plan participants	770
Total accumulated postretirement obligation	\$1,137

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7%.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 15% for fiscal 1994 decreasing one percent each successive year until it reaches 6% in fiscal 2003 after which it remains constant. A 1% increase in the health care trend rate would have an immaterial effect on the accumulated postretirement benefit obligation as of February 26, 1994 and on the net periodic cost for the fiscal year then ended.

G. RELATED PARTY TRANSACTIONS

In accordance with service agreements entered into in connection with the initial public offering, general, administrative and other services were allocated to the Company from SUPERVALU. The Company also provided services and allocated general, administrative and other expenses to two wholly owned subsidiaries of SUPERVALU. In such cases, allocations were made using procedures deemed appropriate to the nature of the services involved. Management believes the allocations were made on a reasonable basis. Although these allocations do not necessarily equal the costs which would have been or may be incurred by the Company on a stand-alone basis, management believes that any variance in costs would not be material. The service agreements between ShopKo and SUPERVALU expired in early fiscal 1994.

Selling, general and administrative expenses include the following allocations (in thousands):

	1994	1993	1992
From SUPERVALU			
to ShopKo	\$ 96	\$1,584	\$3,259
From ShopKo to wholly owned			
subsidiaries of SUPERVALU	\$ 323	\$2,507	\$2,036

Purchases of inventory from SUPERVALU were \$9.7, \$15.4, and \$27.5 million for the fiscal years 1994, 1993, and 1992, respectively.

Also, as a result of the initial public offering, the Company and SUPERVALU entered into certain other agreements of which the following are still in effect:

A food products supply agreement under which the Company has agreed to purchase from SUPERVALU, through October 16, 1998, all of the Company's requirements for certain products sold in any food store owned or operated by the Company and located within the geographic areas serviced by SUPERVALU.

A registration rights agreement under which SOA (and certain affiliates of SUPERVALU) has the right to require the Company to file up to three registration statements under the Securities Act.

H. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following disclosure is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Cash, accounts receivable and accounts payable: The carrying amounts of these items are a reasonable estimate of their fair value.

Short-term debt and long-term obligations: The carrying amounts of the Company's borrowings under its short-term revolving credit agreements approximate their fair value. The fair values of the Company's long-term obligations are estimated using discounted cash flow analysis based on interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities.

The carrying amounts and fair values of the Company's financial instruments at February 26, 1994 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
Short-term debt	\$ 26,200	\$ 26,200
Long-term obligations:		
Senior Unsecured Notes,		
due March 15, 2002	99,705	110,422
Senior Unsecured Notes,		•
due March 15, 2022	99,463	118,176
Senior Unsecured Notes,	ŕ	,
due August 15, 2003	99,737	98,033
Industrial Revenue Bond,		-,
due May 1, 2008	1,000	1,000

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I. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly financial information is as follows:

Fiscal Year (52 Weeks) Ended February 26, 1994 First Second Third Fourth Year (In thousands, except per share data) (16 wks) (12 wks) (12 wks) (12 wks) (52 wks) Net sales \$474,599 \$355,297 \$446,286 \$462,564 \$1,738,746 Gross margins 125,924 91,463 120,830 111,270 449,487 Net earnings 5,719 2,126 14.061 10,216 32,122 Net earnings per common share 0.18 0.07 0.44 0.32 1.00 Weighted average shares 32,000 32,000 32,000 32,001 32,001 Dividends declared per common share 0.110.11 0.11 0.11 0.44 Price range per common share* 157/8-121/2 131/8-105/8 111/2-93/4 12-10 157/8-93/4

	Fiscal Year (52 Weeks) Ended February 27, 1993				
	First	Second	Third	Fourth	 Үсаг
(In thousands, except per share data)	(16 wks)	(12 wks)	(12 wks)	(12 wks)	(52 wks)
Net sales	\$468,358	\$354,187	\$431,527	\$428,782	\$1,682,854
Gross margins	128,184	90,080	119,618	116,541	454,423
Net earnings	10,928	4,399	17,280	17,452	50,059
Net earnings per common share	0.34	0.14	0.54	0.55	1.56
Weighted average shares	32,000	32,000	32,000	32,000	32,000
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share*	16³¼-14¹k	15¹4-13	16³4-14³k	16¹&-14¹&	1634-13

^{*}Price range per common share reflects the highest and lowest stock market prices on the

New York Stock Exchange during the quarter.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders ShopKo Stores, Inc. and Subsidiaries:

We have audited the consolidated balance sheets of ShopKo Stores, Inc. and Subsidiaries as of February 26, 1994 and February 27, 1993 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years (52 weeks, 52 weeks and 53 weeks) in the period ended February 26, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting

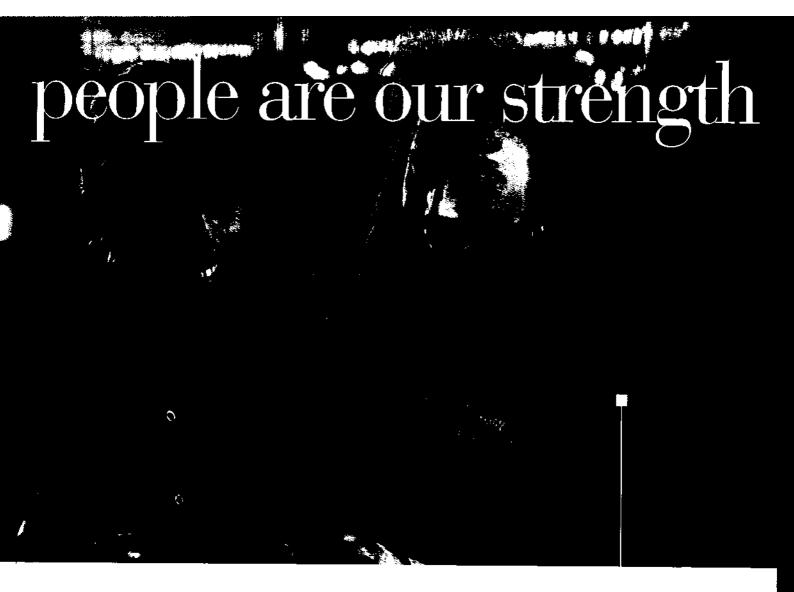
the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ShopKo Stores, Inc. and Subsidiaries as of February 26, 1994 and February 27, 1993, and the results of their operations and their cash flows for each of the three years (52 weeks, 52 weeks and 53 weeks) in the period ended February 26, 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE Milwaukee, Wisconsin

March 31, 1994

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SHAREHOLDERS' INFORMATION

ShopKo Stores, Inc. common shares are listed on the New York Stock Exchange under the symbol "SKO" and in the newspapers as "ShopKo." As of April 15, 1994, ShopKo's common shares were held by 1,793 record owners.

Transfer Agent and Registrar

For help with questions regarding lost, stolen or destroyed stock certificates, non-receipt of dividend checks, consolidation of accounts, transferring of shares and name and address changes call Norwest Banks at 1-800-468-9716.

1994 Annual Meeting

The annual meeting of shareholders will be held June 15, 1994 at 10 a.m. at the Regency Conference Center, 333 Main Street, Green Bay, Wisconsin.

Investor Relations

A copy of the company's 1994 Form 10-K annual report to the Securities and Exchange Commission will be furnished without charge to any shareholder upon written request.

Quarterly reports are furnished to shareholders of record by the company's stock transfer agent. Any shareholder whose stock is not registered in the shareholder's name will be furnished quarterly reports without charge upon written request.

All written requests should be directed to:

Investor Relations Department

ShopKo Stores, Inc. P.O. Box 19060 Green Bay, WI 54307-9060

PEOPLE ARE THE DRIVING FORCE AT SHOPKO

From store sales associates to our buyers, from distribution materials handlers to our management and office teams, everyone at ShopKo shares the enthusiasm, commitment, and vision that has kept us at the forefront in our industry. Throughout our organization, our people are our most precious resource, and the source of our strength.

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BOARD OF DIRECTORS

Pictured from left to right:
Jack W. Eugster, Michael W. Wright, Jeffrey C.
Girard, Bruce G. Allbright, Dale P. Kramer,
William J. Tyrrell

Michael W. Wright Chairman of the Board Chairman, President and Chief Executive Officer of SUPERVALU

Dale P. Kramer
President and Chief Executive Officer

Michael J. Bettiga Vice President, Health Services

Roger J. Chustz Senior Vice President, General Merchandise Manager, Apparel

Lawrence J. Clark Vice President, Finance

Richard W. Cooper Vice President, Distribution, Transportation

C. Scott Copeland Vice President, Store Operations, Loss Prevention

Gary B. Hammond Vice President, Store Operations, Merchandise Presentation Bruce G. Allbright Former President of Dayton Hudson Corporation and former Chairman and Chief Executive Officer of Target Stores

Jack W. Eugster Chairman, President and Chief Executive Officer of The Musicland Group, Inc.

OFFICERS

Steven T. Harig Senior Vice President, Replenishment, Distribution

Thomas D. Hendra Senior Vice President, General Merchandise Manager, Hardlines/Home

Jeffrey A. Jones Senior Vice President and Chief Financial Officer

Mark R. Kennedy Senior Executive Vice President

Richard S. Lamberg Vice President, Divisional Merchandise Manager, Hardlines

Richard T. Laucks Vice President, Loss Prevention Jeffrey C. Girard Executive Vice President and Chief Financial Officer of SUPERVALU

Dale P. Kramer President and Chief Executive Officer of ShopKo

William J. Tyrrell Vice Chairman of the Board Former President of ShopKo

David A. Liebergen Senior Vice President, Human Resources and Secretary

Peter R. Lynn Vice President, Marketing

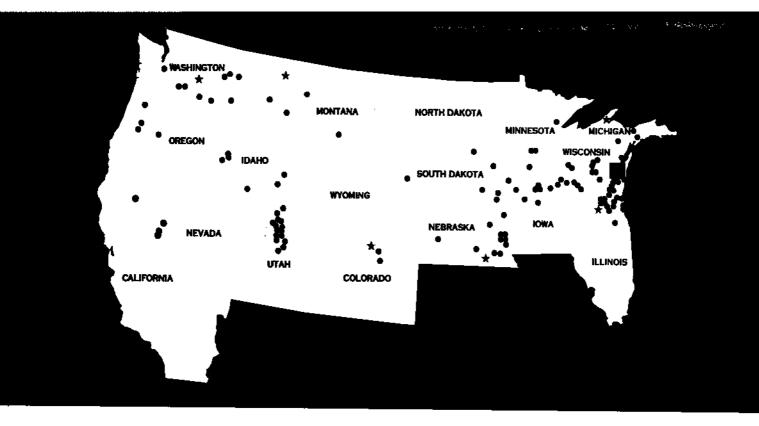
Steve C. Peters Vice President, Replenishment

Randy L. Roiko Vice President, Merchandise Operations

Dennis R. Ruebel Vice President, Divisional Merchandise Manager, Health Services

Walter B. Sandlin Vice President, Divisional Merchandise Manager, Hardlines

James F. Tucker
Vice President,
Management Information Systems



STORE LOCATIONS

- SHOPKO STORES
- GENERAL OFFICE
 GREEN BAY, WISCONSIN
- A DISTRIBUTION CENTERS BOISE, IDAHO DE PERE, WISCONSIN OMAHA, NEBRASKA
- ★ FISCAL 1995 NEW SHOPKO STORE LOCATIONS MONROE, WISCONSIN RIVER FALLS, WISCONSIN HOUGHTON, MICHIGAN HASTINGS, NEBRASKA FORT COLLINS, COLORADO KALISPELL, MONTANA WENATCHEE, WASHINGTON
- California (1) Redding

Colorado (3)
Fort Collins
Longmont
Loveland

Idaho (8) Boise (2) Chubbuck Coeur d'Alene Idaho Falls Lewiston Nampa

Twin Falls

Illinois (1)

Dixon

Iowa (3) Mason City Sioux City Spencer

Michigan (4) Escanaba Houghton Kingsford Marquette

Minnesota (13) Albert Lea Austin Duluth Fairmont Hutchinson Mankato Marshall Rochester (2) St. Cloud (2) Winona

Montana (5) Billings Great Falls Helena Kalispell Missoula

Worthington

Nebraska (11) Bellevue Grand Island Hastings Lincoln (2) Norfolk North Platte Omaha (4)

Nevada (3) Reno (2) Sparks

Oregon (4) Bend Eugene (2) Salem

South Dakota (6) Aberdeen Mitchell Rapid City Sioux Falls (2) Watertown

Utah (15) Brigham City Layton Logan Murray Ogden Orem Provo Riverdale Salt Lake City (2) Sandy City Spanish Fork West Bountiful West Jordan West Valley City

Washington (8) Kennewick Laccy Spokane (2) Union Gap Walla Walla Wenatchee Yakima

Wisconsin (39)
Appleton
Ashwaubenon
Beaver Dam
Beloit
Chippewa Falls
De Pere
Eau Claire
Fond du Lac
Fort Atkinson

Janesville Kenosha Kimberly La Crosse (2) Madison (3) Manitowoc Marinette Marshfield Menasha Monona Monroe Neenah Onalaska Oshkosh Racine River Falls Rothschild Sheboygan Stevens Point (2) Watertown Wausau West Bend Wisconsin Rapids

Grafton

Green Bay (2)



700 Pilgrim Way P.O. Box 19060 Green Bay, WI 54307-9060 414-497-2211



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INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-43952 on Form S-8, Registration Statement No. 33-58584 on Form S-8, Registration Statement No. 33-66584 on Form S-3, and Registration Statement No. 33-70666 on Form S-8 of ShopKo Stores, Inc. of our reports dated March 31, 1994, appearing in and incorporated by reference in the Annual Report on Form 10-K of ShopKo Stores, Inc. and Subsidiaries for the year (52 weeks) ended February 26, 1994.

DELOITTE & TOUCHE

Milwaukee, Wisconsin

May 17 , 1994