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# SECURITIES AND EXCHANGE COMMISSION

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Washington, D.C. 20549

## FORM 10-K

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(Mark One)

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

For the fiscal year (53 weeks) ended February 29, 1992 .....

OR

**PROCESSED BY**

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 [NO FEE REQUIRED]

May 28 1992

For the transition period from 273 to 2514  
Commission file number 1-10876 **DISCLOSURE INCORPORATED**

**SHOPKO STORES, INC.**  
(Exact name of registrant as specified in its Charter)

Lyn

Minnesota 41-0985054  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

700 Pilgrim Way, Green Bay, Wisconsin 54304  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (414) 497-2211

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_\_\_

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(1)

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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. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 23, 1992 was approximately \$245,167,000 (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 23, 1992: 32,000,000.

#### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's Annual Report to Shareholders for the fiscal year ended February 29, 1992 are incorporated into Parts II and IV, as specifically set forth in said Parts II and IV.
2. Portions of Registrant's definitive Proxy Statement filed for Registrant's 1992 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in said Part III.

[Cover page 2 of 2 pages]

Item 1      BUSINESS

General

ShopKo Stores, Inc., a Minnesota corporation, ("ShopKo" or the "Company"), is a leading regional discount store chain operating 109 discount retail stores in 13 states as of February 29, 1992. The Company was founded in 1961 and was acquired by Super Valu Stores, Inc. ("Super Valu") 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

ShopKo stores carry a wide selection of branded and private label nondurable "hardline" goods such as housewares, music/videos, health and beauty aids, toys and sporting goods, and "softline" goods such as home textiles, men's, women's and children's apparel, shoes, jewelry, cosmetics and accessories. Most of the Company's stores carry more than 74,000 SKUs, thus providing customers with a convenient one-stop shopping source for everyday items. The Company's "hassle-free" customer service policies provide customers with a pleasant, convenient shopping experience. The Company provides a "no hassle" return policy and, in most markets, check cashing services and free layaway.

In addition, the Company provides professional health care services in most of its stores. Of the Company's 109 stores at fiscal year end, 106 include pharmacy departments and 99 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 in-store finishing labs provides some customers with one-hour or same day optical service.

During fiscal 1992, approximately 28% of the Company's net sales were derived from sales of softline goods, approximately 56% from sales of hardline goods, and approximately 16% from pharmacy and optical services. The Company is seeking to increase the proportion of its revenues derived from the sale of softline goods relative to hardline goods in order to enhance the image of its stores, further differentiate its merchandise selection and capture the typically higher margins available on softline sales. The Company aims to achieve this goal through a variety of means, such as strengthening its controlled label softline program, expanding and improving the in-store presentation of softline goods, and focusing and moderately upscaling its assortment of softlines.

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. The Company estimates that a majority of its net sales is accounted for by what it deems to be brand name items. In addition, ShopKo has

well-developed private label programs generally providing savings of at least 15%. Virtually all of ShopKo's private label and controlled label merchandise, direct imports and toys are subjected to independent testing and certification for quality and safety.

ShopKo emphasizes its seasonal departments and holiday promotions. The Company's key seasonal departments include lawn and garden, outdoor living, back-to-school, trim-a-tree and others, and its holiday promotions include Easter, Halloween, Valentine's Day, Mother's Day and others. ShopKo gives its seasonal departments significant advertising, store space and store prominence. During the peak of the Christmas selling season, most ShopKo stores are open 24 hours a day in order to maximize customer convenience and sales. The Company believes that its strong commitment to its seasonal departments and promotions is effective in drawing additional destination traffic, in differentiating ShopKo stores from other discount retail stores and in enhancing its image.

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. During fiscal 1992, promotional items accounted for approximately 30% of the Company's net sales. The Company also provides its store managers with the flexibility to respond at the store level to local competitive pricing issues.

#### Marketing and Advertising

ShopKo's marketing efforts are aimed at its core customers - young, middle-class shoppers who derive satisfaction from shopping in a promotional environment. The Company advertises weekly in newspapers with full-color circulars and eight times a year with direct-mail "pocketbooks". Each of the circulars, generally 12 to 24 pages in length, and the 100-page "pocketbooks" features several hundred specially priced high demand items. These frequent print promotions have an average circulation of more than 3 million. These advertising materials are designed and laid out by the Company's in-house graphic design team, with the featured items selected on the basis of potential 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.

#### Store Layout and Design

ShopKo stores are designed for customer convenience and for effective merchandise presentation. Promotional areas adjacent to store entrances are reserved for the Company's seasonal promotions, and the optical and pharmacy departments are placed near the front of the store. The remainder of the store is laid out in a "racetrack" configuration which takes customers between and around departments. The Company's current promotionally priced items are prominently displayed.

The Company's stores average size is approximately 87,000 square feet with approximately 80% of the stores greater than 75,000 square feet. Stores opened by the Company since the beginning of calendar 1986 have averaged approximately 93,000 square feet. The Company anticipates that in the future its typical new

store will be somewhat larger than most of its present stores and that, as further efficiencies in purchasing and distribution are realized, a smaller proportion of the store will be dedicated to storage of inventory. In November 1991, the Company unveiled its newest prototype store with a remodeling and expansion to 115,800 square feet of one of its Green Bay stores. Also, in March 1992 the Company opened a new prototype 116,900 square foot store in Salem, Oregon. 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 and site preparation work, the Company expects that a typical new store's cost for land acquisition, site preparation, building and fixturing will approximate \$9 to \$11 million. Improvements in store design also can be incorporated in periodic renovations of existing stores, which generally take place approximately every seven to ten years and can cost from \$500,000 to \$2 million per store. The Company's present store base is relatively young, with an average store age of approximately eight years.

#### Store Operations and Management

The Company has a decentralized management structure and encourages responsiveness and entrepreneurship at the store level by providing its managers with a relatively high degree of autonomy in modifying some merchandise selections and in in-store merchandising. In addition, store managers' compensation is tied in part to store sales and profitability. The Company believes that its policy of controlled flexibility at the local level enables its store managers to be better merchandisers and may provide it with an advantage over competitors. 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 which is 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 eleven years, and its assistant managers on an average of more than six years.

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 4,200 vendors, with its ten largest vendors (principally wholesale distributors) accounting for approximately 23% of the Company's purchases during fiscal 1992. The Company believes that most merchandise, other than branded goods, is available from a variety of sources. Approximately 250 vendors were linked to the Company's EDI purchase order system as of February 29, 1992. Vendors are expected to be added at an accelerated pace thereafter. The Company also is increasing its use of centralized forecasted inventory replenishment systems in order to reduce vendor lead times and overall inventory levels.

Direct imports accounted for approximately 6% of the Company's purchases during fiscal 1992. The Company buys its imported goods, principally in the Far East, and ships the goods to its distribution centers for distribution to the stores. ShopKo's shoe department (other than athletic shoes) is the principal department operated by a third party under license.

The Company operates distribution centers in De Pere, Wisconsin, Boise, Idaho and Omaha, Nebraska, where goods are received from vendors and divided and shipped to the respective stores. The Company believes that it has been an industry leader in using automated "fluid load" distribution center techniques, in which goods are unloaded from vendors' trucks directly onto conveyer belts. Bar coding and scanners are used to automatically divide and route the goods on the conveyor belts for loading directly onto trucks destined for the respective stores. This technique reduces the number of times which goods must be handled and the amount of distribution center space needed for their storage. The Company owns and operates its own transportation fleet used to carry goods from the distribution centers to the stores.

As of February 29, 1992, the Company had spent approximately \$12.2 million of a planned expenditure of \$36 million to replace its Boise distribution center with a larger 210,000 square foot center, to replace its Omaha distribution center with a larger 50,000 square foot center, and to add 160,000 square feet to its De Pere distribution center increasing its size to 260,000 square feet. The Company anticipates that these projects will be completed in the fall of 1992. These expansions are expected to enable 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 cost of goods). The expansions also are expected to speed the Company's handling of inventory and improve inventory turnover, to reduce distribution center labor expense through increased mechanization and to support additional growth. The Company anticipates that these cost reductions will help it to remain price competitive. During fiscal 1992, approximately 50% of the merchandise sold by the Company's stores flowed through its distribution centers. During fiscal 1993, the Company expects to reduce substantially the percentage of goods purchased by it through distributors, which it expects to have a favorable impact on its cost of sales, and over time it expects to increase to approximately 70% the percentage of its merchandise flowing through its distribution centers.

#### 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. In addition, the Company's pharmacy departments use computerized systems for automated printing of prescription labels and records, for on-line third party payor approval of drug prescriptions, for automated billing and for automated generation of drug interaction warnings.

## Expansion

In 1984 the Company embarked on a new store addition program, increasing its store base from 39 at the end of fiscal 1984 to 109 at fiscal year end. After an anticipated slowing of store additions in fiscal 1993 while the Company implements its distribution center expansion project, ShopKo plans to resume new store additions at an increasing rate. Although there is no assurance that future store growth will take place as anticipated, the Company believes that it has the experience in site selection and acquisition, demographic analysis, store design and construction, and expansion into new areas necessary for its future expansion activities. In addition, ShopKo believes it has the management depth at the store level necessary to support store growth. The Company opened 7 new stores in fiscal 1992 (including 2 relocated stores), and presently plans to open 3 new stores in fiscal 1993 (including 1 relocated store) and 8 new stores in fiscal 1994. The Company anticipates opening increasing numbers of new stores in subsequent fiscal years, and it believes that growth opportunities may exist for it in areas both contiguous and noncontiguous to its present regions. The Company anticipates that some of the new stores planned to open in fiscal 1994 will be in regions noncontiguous to the present regions.

## 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, discount specialty retail chains compete in some merchandise lines such as electronics and toys, and deep discount drug operations compete with some of ShopKo's pharmacy departments. The Company believes that the principal competitive factors in its markets include store location, attractiveness and cleanliness; pricing; breadth and quality of product selection, including branded merchandise; 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 compete with virtually all of the Company's stores, Wal-Mart stores compete with slightly more than one-half of its stores, and Target stores compete with slightly more than a third of its stores. In addition, the Company competes with regional chains in some markets in the Midwest and in the Pacific Northwest. The Company expects Wal-Mart and Target to continue to open stores competing with stores operated by the Company. 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 growth trend consistent with its prior experience, and such entry often has resulted in permanently intensified price competition. The 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 29, 1992, the Company employed approximately 17,400 persons, of whom approximately 8,300 were full-time employees and 9,100 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 29, 1992, the Company operated 109 retail stores located in 13 Upper Midwestern, Mountain, and Pacific Northwest states. The following table sets forth the geographic distribution of the Company's present stores:

<u>State</u>	<u>Number of Stores</u>	<u>State</u>	<u>Number of Stores</u>
California.....	1	Nevada.....	3
Idaho.....	8	Oregon.....	3
Iowa.....	3	South Dakota.....	6
Michigan.....	3	Utah.....	15
Minnesota.....	12	Washington.....	6
Montana.....	3	Wisconsin.....	36
Nebraska.....	10	Total.....	109

ShopKo owns the land and building outright with respect to 87 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 14 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 1992 through 2010. Of the seven leases expiring through the end of the calendar 1995, all but one have renewal options for terms totalling at least 10 years.

The Company's other principal properties, consisting of its distribution and return centers and its corporate headquarters, are as follows:

<u>Location</u>	<u>Use</u>	<u>Sq. Feet of Building Space</u>	<u>Title</u>
Green Bay, Wisconsin	Corporate headquarters	228,000	Owned
De Pere, Wisconsin	Distribution center	105,000	Owned
Boise, Idaho	Distribution center	80,000	Leased through Nov. 1, 1992
Omaha, Nebraska	Distribution center	31,500	Owned
Green Bay, Wisconsin	Return center	68,500	Owned

By the fall of 1992, the Company intends to replace its leased Boise distribution center with a new 210,000 square foot center, to replace its Omaha distribution center with a new 50,000 square foot center, and to add 160,000 square feet to its De Pere distribution center. The new Boise and Omaha distribution centers will also be owned by the Company. The new Boise facility is being built on 50 acres of land owned by the Company, leaving room for future expansion. The Company has exercised its right to terminate its present Boise lease effective November 1, 1992. The expansion to the De Pere facility included a land purchase of 15.8 acres, bringing the site total to 38 acres and also leaving room for future expansion. The Company's corporate headquarters are built on a 47 acre parcel, with 13 acres estimated as available for future development.

**Item 3      LEGAL PROCEEDINGS**

The Company is involved in various litigation 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 1992 to a vote of the security holders of Registrant.

EXECUTIVE OFFICERS OF THE REGISTRANT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Served in Position Since</u>
Dale P. Kramer.....	52	President, Chief Executive Office and Director	1991
Thomas D. Hendra....	45	Senior Vice President, Merchandising	1991
Mark R. Kennedy.....	34	Senior Vice President, Chief Financial Officer and Treasurer	1992
Eugene E. Bankers...	52	Vice President, Communications and Investor Relations	1982
Lawrence J. Clark...	44	Vice President, Finance and Distribution	1992
Steven T. Harig.....	37	Vice President, Inventory and Replenishment	1990
John W. Hermsen.....	45	Vice President, Store Operations	1986
David A. Liebergen..	46	Vice President, Human Resources, Government Affairs and Loss Prevention; Secretary	1986
Clayton L. Schaefer.	47	Vice President, Apparel and Homelines	1982
John R. Schwartje...	53	Vice President, Professional Services	1986

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 elected.

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 and Steven T. Harig. Mr. Kennedy has been Senior Vice President, Chief Financial Officer and Treasurer of ShopKo since February 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, and as Federated's Assistant Treasurer since October 1987. Prior thereto, he served as Director of Corporate and International Finance for The Pillsbury Company. Mr. Harig has 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 Marketing.

## 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 1992 (Exhibit 13) page 25.

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 H of Notes to Consolidated Financial Statements of the Registrant's Annual Report to the Shareholders for fiscal year 1992 (Exhibit 13) page 22.

The Registrant's credit agreement with Super Valu Stores, Inc. has a restrictive covenant which requires maintenance of a minimum net worth. This covenant may potentially limit the payment of dividends. As of February 29, 1992 the Company was in compliance with this covenant having a net worth balance of \$319.5 million compared to a required balance of \$280.3 million.

### Item 6 SELECTED FINANCIAL DATA

The information called for by Item 6 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1992 (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 1992 (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 1992 (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 405 of Regulation S-K, is incorporated by reference to the Registrant's definitive Proxy Statement dated May 26, 1992 filed with the Securities and Exchange Commission pursuant to Regulation 14A in

connection with the Registrant's 1992 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 26, 1992 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1992 Annual Meeting of Shareholders.

**Item 12      SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information called for by Item 12 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 26, 1992 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1992 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 26, 1992 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1992 Annual Meeting of Shareholders.

**Part IV**

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

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 1992 Annual Report to Shareholders (Exhibit 13):

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Independent Auditors' Report  
Consolidated balance sheets as of February 29,  
1992 and February 23, 1991

Consolidated statements of earnings for each of the  
three years in the period ended February 29, 1992

Consolidated statements of cash flows for each of the  
three years in the period ended February 29, 1992

Consolidated statements of shareholders' equity for each of  
the three years in the period ended February 29, 1992

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 29, 1992 - included in Part II, Item 8 (which incorporates information by reference to the Registrant's 1992 Annual Report to Shareholders (Exhibit 13)).	11
Independent Auditors' Report on schedules	17
Schedule IV - Indebtedness to Related Parties - Not Current	18
Schedule V - Property and equipment	19
Schedule VI - Reserve for depreciation and amortization of property and equipment	20
Schedule VIII - Valuation and qualifying accounts	21
Schedule X - Supplementary income statement information	22

All other schedules are omitted because they are not applicable or not required.

**3. Exhibits**

- \* 3.1 Restated Articles of Incorporation of the Company.
- \* 3.2 Bylaws of the Company, as amended.
- 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.
- 4.1.2 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.
- \* 4.2 Form of Rights Agreement between the Company and Rights Agent (including form of preferred stock designation).
- \*\* 4.3 Credit Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.
- \* 10.1 ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).
- \* 10.2 Super Valu Stores, Inc. Executive Incentive Bonus Program.
- \* 10.3 ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended.

- \* 10.4 Letter dated June 19, 1989, from the Company to Mr. Jack Koegel.
- \* 10.5 Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company.
- \* 10.6 Super Valu Stores, Inc. Deferred Compensation Plan ("1980 Plan").
- \* 10.7 Super Valu Stores, Inc. Executive Deferred Compensation Plan ("Plan I").
- \* 10.8 Super Valu Stores, Inc. Executive Deferred Compensation Plan II ("Plan II").
- \* 10.9 Super Valu Stores Inc. 1983 Employee Stock Option Plan, as amended.
- \* 10.10 Super Valu Stores, Inc. 1989 Stock Appreciation Rights Plan.
- \* 10.11 Distribution Center Lease Agreement (Boise, Idaho) effective May 1, 1989, between the Company and Harry S. Rinker, Trustee.
- \*\* 10.12 Registration Rights Agreement dated as of October 8, 1991 between the Company and Supermarket Operators of America Inc.
- \*\* 10.13 Master Corporate Services Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.
- \*\* 10.14 SV Pharmacy Management Agreement dated as of October 8, 1991 between the Company and SV Pharmacies, Inc.
- \*\* 10.15 Twin Valu Management and Supply Agreement dated as of October 8, 1991 between the Company and Twin Valu Stores, Inc.
- \*\* 10.16 Supply Agreement (Food Products) dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.
- \*\* 10.17 Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.
- 10.18 Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell.
- \*\* 10.19 Insurance Matters Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.

- \* 10.20 Form of Indemnification Agreement between the Company and directors and certain officers of the Company.
  - 10.21 ShopKo Senior Officers Deferred Compensation Plan.
  - \*\* 10.22 ShopKo Directors Deferred Compensation Plan.
  - 10.23 ShopKo Stores, Inc. Incentive Bonus Program.
  - 13 1992 Annual Report to Shareholders of Registrant.
  - \* 22.1 Subsidiaries of the Registrant.
  - 24.1 Consent of Deloitte & Touche.
  - \* Incorporated by reference to the identically numbered exhibit of the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283).
  - \*\* Incorporated by reference to the identically numbered exhibit of the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).
- 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 1992 ended February 29, 1992.

## SIGNATURES

Pursuant to the requirements of 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.

By: Dale P. Kramer  
Dale P. Kramer, President  
Date: May 22, 1992

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

Name	Title	Date
<u>Dale P. Kramer</u> Dale P. Kramer	President, Chief Executive Officer and a Director	<u>May 22</u> , 1992
<u>Mark R. Kennedy</u> Mark R. Kennedy	Senior Vice President, Chief Financial Officer and Treasurer	<u>May 22</u> , 1992
<u>Michael W. Wright</u> Michael W. Wright	Chairman of the Board of Directors	<u>May 22</u> , 1992
<u>William L. Tyrell</u> William L. Tyrell	Vice Chairman of the Board of Directors	<u>May 22</u> , 1992
<u>Bruce G. Allbright</u> Bruce G. Allbright	Director	<u>May 22</u> , 1992
<u>Jack W. Eugster</u> Jack W. Eugster	Director	<u>May 22</u> , 1992
<u>Jeffrey C. Girard</u> Jeffrey C. Girard	Director	<u>May 22</u> , 1992

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the consolidated financial statements of ShopKo Stores, Inc. (the Company) and subsidiaries as of February 29, 1992 and February 23, 1991 and for each of the three years (53 weeks, 52 weeks and 52 weeks) in the period ended February 29, 1992 and have issued our report thereon dated April 3, 1992; such consolidated financial statements and report are included in your 1992 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedules of ShopKo Stores, Inc. and subsidiaries, listed in Item 14. These 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 financial statements schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

*Deloitte & Touche*

Deloitte & Touche  
Milwaukee, Wisconsin  
April 3, 1992

**ShopKo Stores, Inc. and Subsidiaries**

**Schedule IV—Indebtedness to Related Parties—Not Current**

(In thousands)

	<b>Balance at beginning of year</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at end of year</b>
<b>Year (52 weeks) ended February 24, 1990:</b>				
Super Valu Stores, Inc.....	\$ 215,368	\$ 8,083		\$ 223,451
<b>Year (52 weeks) ended February 23, 1991:</b>				
Super Valu Stores, Inc.....	\$ 223,451		\$ 19,417	\$ 204,034
<b>Year (53 weeks) ended February 29, 1992:</b>				
Super Valu Stores, Inc.....	\$ 204,034		\$ 22,867	181,167

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

	Balance at beginning of year	Additions at cost	Retirements and transfers(1)	Balance at end of year
<b>Year (52 weeks) ended February 24, 1990:</b>				
Land.....	\$ 73,113	\$ 6,075	\$ 1,057	\$ 78,131
Buildings:				
Owned.....	218,456	40,993	21	259,428
Leased.....	21,239		955	20,284
Property Under Construction.....	9,797	5,533		15,330
Leasedhold Improvements.....	34,428	3,973	262	38,139
Equipment.....	133,946	23,543	1,931	155,558
	<b>\$ 490,979</b>	<b>\$ 80,117</b>	<b>\$ 4,226</b>	<b>\$ 566,870</b>
<b>Year (52 weeks) ended February 23, 1991:</b>				
Land.....	\$ 78,131	\$ 8,570	\$ 471	\$ 86,230
Buildings:				
Owned.....	259,428	10,696	(10,784)	280,908
Leased.....	20,284	333		20,617
Property Under Construction.....	15,330	13,065	11,969	16,426
Leasedhold Improvements.....	38,139	3,039		41,178
Equipment.....	155,558	23,730	2,444	176,844
	<b>\$ 566,870</b>	<b>\$ 59,433</b>	<b>\$ 4,100</b>	<b>\$ 622,203</b>
<b>Year (53 weeks) ended February 29, 1992:</b>				
Land.....	\$ 86,230	\$ 3,817	\$ 851	\$ 89,196
Buildings:				
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
Leasedhold Improvements.....	41,178	594	869	40,903
Equipment.....	176,844	18,062	2,999	191,907
	<b>\$ 622,203</b>	<b>\$ 55,262</b>	<b>\$ 12,454</b>	<b>\$ 665,011</b>

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

**ShopKo Stores, Inc. and Subsidiaries**  
**Schedule VI—Reserve for Depreciation and Amortization**  
**Of Property and Equipment**  
**(In thousands)**

	Balance at beginning of year	Additions at cost	Retirements and transfers	Balance at end of year
<b>Year (52 weeks) ended February 24, 1990:</b>				
Buildings:				
Owned.....	\$ 43,322	\$ 11,357	\$ 20	\$ 54,659
Leased.....	10,275	1,807	692	11,390
Leasedhold Improvements.....	5,155	2,392	254	7,293
Equipment.....	63,035	19,682	1,454	81,263
	<b>\$ 121,787</b>	<b>\$ 35,238</b>	<b>\$ 2,420</b>	<b>\$ 154,605</b>
<b>Year (52 weeks) ended February 23, 1991:</b>				
Buildings:				
Owned.....	\$ 54,659	\$ 12,887	\$ 1,187	\$ 66,359
Leased.....	11,390	1,787		13,177
Leasedhold Improvements.....	7,293	2,594		9,887
Equipment.....	81,263	21,866	2,355	100,774
	<b>\$ 154,605</b>	<b>\$ 39,134</b>	<b>\$ 3,542</b>	<b>\$ 190,197</b>
<b>Year (53 weeks) ended February 29, 1992:</b>				
Buildings:				
Owned.....	\$ 66,359	\$ 14,004	\$ 77	\$ 80,286
Leased.....	13,177	1,415	7,046	7,546
Leasedhold Improvements.....	9,887	2,630	863	11,654
Equipment.....	100,774	22,323	2,795	120,302
	<b>\$ 190,197</b>	<b>\$ 40,372</b>	<b>\$ 10,781</b>	<b>\$ 219,788</b>

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.

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

	Balance at beginning of year	Charged to costs and expenses	Deductions*	Balance at end of year
<b>Year (52 weeks) ended February 24, 1990:</b>				
Allowance for losses.....	\$ 807	\$ 32	(531)	\$ 1,370
<b>Year (52 weeks) ended February 23, 1991:</b>				
Allowance for losses.....	\$ 1,370	\$ 216	176	\$ 1,410
<b>Year (53 weeks) ended February 29, 1992:</b>				
Allowance for losses.....	\$ 1,410	\$ 139	(829)	\$ 2,378

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

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

	Fiscal years ended		
	February 24, 1990 (52 weeks)	February 23, 1991 (52 weeks)	February 29, 1992 (53 weeks)
1. Maintenance and repairs.....	*	*	*
2. Amortization of intangible assets.....	*	*	*
3. Taxes other than payroll and income taxes:			
Property taxes.....	*	*	*
4. Royalties.....	*	*	*
5. Advertising costs**.....	\$ 23,540	\$ 20,293	\$ 20,391

\*Amounts not significant—less than 1% of total sales and revenues.

\*\*Net of vendor allowances.

**EXHIBIT INDEX**  
**SHOPKO STORES, INC.**  
**10-K REPORT**

<u>EXHIBIT NUMBER</u>	<u>EXHIBIT</u>	<u>SEQUENTIAL PAGE NUMBER IN MANUALLY SIGNED ORIGINAL</u>
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.	36
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.	109
4.2	Form of Rights Agreement between the Company and Rights Agent (including form of preferred stock designation).	Incorporated by Reference
4.3	Credit Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.	Incorporated by Reference
10.1	ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).	Incorporated by Reference
10.2	Super Valu Stores, Inc. Executive Incentive Bonus Program.	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	Letter dated June 19, 1989, from the Company to Mr. Jack Koegel.	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
10.6	Super Valu Stores, Inc. Deferred Compensation Plan ("1980 Plan").	Incorporated by Reference

<u>EXHIBIT NUMBER</u>	<u>EXHIBIT</u>	<u>SEQUENTIAL PAGE NUMBER IN MANUALLY SIGNED ORIGINAL</u>
10.7	Super Valu Stores, Inc. Executive Deferred Compensation Plan ("Plan I").	Incorporated by Reference
10.8	Super Valu Stores, Inc. Executive Deferred Compensation Plan II ("Plan II").	Incorporated by Reference
10.9	Super Valu Stores Inc. 1983 Employee Stock Option Plan, as amended.	Incorporated by Reference
10.10	Super Valu Stores, Inc. 1989 Stock Appreciation Rights Plan.	Incorporated by Reference
10.11	Distribution Center Lease Agreement (Boise, Idaho) effective May 1, 1989, between the Company and Harry S. Rinker, Trustee.	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
10.13	Master Corporate Services Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.	Incorporated by Reference
10.14	SV Pharmacy Management Agreement dated as of October 8, 1991 between the Company and SV Pharmacies, Inc.	Incorporated by Reference
10.15	Twin Valu Management and Supply Agreement dated as of October 8, 1991 between the Company and Twin Valu Stores, Inc.	Incorporated by Reference
10.16	Supply Agreement (Food Products) dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.	Incorporated by Reference
10.17	Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.	Incorporated by Reference
10.18	Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell.	192
10.19	Insurance Matters Agreement dated as of October 8, 1991 between the Company and Super Valu Stores, Inc.	Incorporated by Reference

EXHIBIT  
NUMBER

EXHIBIT

SEQUENTIAL PAGE  
NUMBER IN MANUALLY  
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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.	106
10.22	ShopKo Directors Deferred Compensation Plan.	Incorporated by Reference
10.23	ShopKo Stores, Inc. Incentive Bonus Program.	236
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24.1	Consent of Deloitte & Touche.	270.



**5161 River Road  
Bethesda, MD 20816  
(301) 951-1300**

**EXHIBITS  
FOLLOW**

**EXHIBIT 4.1.1**

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**SHOPKO STORES, INC.**

**TO**

**FIRST TRUST NATIONAL ASSOCIATION**  
**Trustee**

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**Indenture**

**Dated as of March 12, 1992**

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**\$100,000,000**

**8.50% Senior Notes due March 15, 2002**

---

027

## SHOPKO STORES, INC.

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

<u>Trust Indenture Act Section</u>		<u>Indenture Section</u>
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(a)(2)	.	609
(a)(3)	.	Not Applicable
(a)(4)	.	Not Applicable
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§ 312(a)	.	701
		702
(b)	.	702
(c)	.	702
§ 313(a)	.	703
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(c)	.	703
(d)	.	703
§ 314(a)	.	704
(a)(4)	.	101 1004
(b)	.	Not Applicable
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be deemed to be a part of the Indenture.

INDENTURE, dated as of March 12, 1992, 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 of America, as Trustee (herein called the "Trustee").

**RECITALS OF THE COMPANY**

The Company has duly authorized the creation of an issue of its 8.50% Senior Notes due March 15, 2002 (herein called the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and 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 agreed, for the equal and proportionate benefit of all Holders of the Securities, 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;

(4) the words "Article" and "Section" refer to an Article and Section, respectively, of this Indenture; and

(5) 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, and the words "include", "includes" and "including" mean, in each case, without limitation.

"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 a 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.

"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" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York or Wisconsin 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, 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" or "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.

"Covenant Defeasance" has the meaning specified in Section 1103.

"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.

"Defeasance" has the meaning specified in Section 1102.

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

"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.

"Interest Payment Date" means the Stated Maturity of an instalment of interest on the Securities.

"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 becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration or otherwise.

"Net Available Proceeds" from any Sale Transaction by any Person means cash or readily marketable cash equivalents received (including by way of sale or discounting of a note, instalment 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 1004 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 and no part of which is under construction or development for use by the Company or any Subsidiary 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.

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

(1) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment 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;

(3) 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, 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 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.

"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.

"Regular Record Date" for the interest payable on any Interest Payment Date means the June 1 or December 1

(whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"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, the date of this Indenture, 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, the date of 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 instalment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of 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 or 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 expense, (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 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.

"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 such successor Trustee.

"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" has the meaning specified in Section 1104.

"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 requirement set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (including certificates provided for in Section 1004) 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.

Any request, demand, authorization, direction, notice, consent, waiver or other action (including a vote on any action) provided or permitted 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.

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 acknowledgments 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.

The ownership of Securities shall be proved by the Security Register.

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.

The Company may, in the circumstances permitted by the Trust Indenture Act, set any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action (including a vote on any action) provided or permitted by this Indenture to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder 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, only the Holders on such date (or their duly appointed agents) shall be entitled to give or take (or vote on) the relevant action.

#### 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 latter 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 of Securities, any benefit or any 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 law 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 or Stated Maturity of any Security shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date or Stated Maturity, as the case may be.

ARTICLE TWO

Security Forms

SECTION 201. Forms Generally.

The Securities and the Trustee's certificates of authentication shall be in substantially the forms set forth in this Article, 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.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. Form of Face of Security.

SHOPKO STORES, INC.

8.50% Senior Notes due March 15, 2002

No. \_\_\_\_\_ \$ \_\_\_\_\_

SHOPKO STORES, INC., a corporation duly organized and existing under the laws of Minnesota (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on March 15, 2002, and to pay interest thereon from March 12, 1992 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 15 and December 15 in each year, commencing June 15, 1992 at the rate of 8.50% per annum, until the principal hereof is paid or made available for payment, and at the rate of 8.50% per annum on any overdue principal and on any overdue instalment 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 June 1 or December 1 (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 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 may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. Any interest payable on overdue principal or interest shall be payable immediately upon accrual to the Person entitled to receive such overdue principal or interest. Payment of the principal of and interest on this Security will be made at the office or agency of the Company maintained for that purpose in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever location the Company may designate from time to time), 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; provided, however, that at the option of the Company payment of interest may be made by check mailed 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.

By \_\_\_\_\_

Attest:

\_\_\_\_\_

**SECTION 203. Form of Reverse of Security.**

This Security is one of a duly authorized issue of Securities of the Company designated as its 8.50% Senior Notes due March 15, 2002 (herein called the "Securities"), limited in aggregate principal amount to \$100,000,000, issued and to be issued under an Indenture, dated as of March 12, 1992 (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.

If an Event of Default shall occur and be continuing, the principal of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

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 under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, 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 herefor 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 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 registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever location the Company may designate from time to time), 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 authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities are exchangeable for a like aggregate principal amount of Securities 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.**

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

\_\_\_\_\_  
as Trustee

By \_\_\_\_\_  
Authorized Officer

**ARTICLE THREE**

**The Securities**

**SECTION 301. Title and Terms.**

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to \$100,000,000, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 304, 305, 306 or 906.

The Securities shall be known and designated as the "8.50% Senior Notes due March 15, 2002" of the Company. Their Stated Maturity shall be March 15, 2002, and they shall bear interest at the rate of 8.50% per annum, from March 12, 1992 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on June 15 and December 15, commencing June 15, 1992, until the principal thereof is paid or made available for payment.

The principal of and interest on the Securities shall be payable at the office or agency of the Company in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever the Company may designate from time to time) maintained for such purpose and at any other office or agency maintained by the Company for such purpose; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

**SECTION 302. Denominations.**

The Securities shall be issuable only in registered form without coupons and only 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 Secretary or one of its Assistant Secretaries. 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 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 such Company Order shall authenticate and deliver such Securities as in this Indenture provided and not otherwise.

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.

**SECTION 304. Temporary Securities.**

Pending the preparation of definitive Securities, 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 are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

**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 designated pursuant to Section 1002 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 at an office or agency of the Company designated pursuant to Section 1002 for such purpose, 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 any authorized denominations and of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount, 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 or 906 not involving any transfer.

**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 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 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 issued pursuant to this Section in exchange for any mutilated Security or in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, 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 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.**

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 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 (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 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 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 (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 in any other lawful manner not inconsistent with the requirements of any securities exchange on which the 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 (subject to Section 307) 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, registration of transfer or exchange 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 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.**

Interest on the Securities 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 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, on demand of and 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,

and the Company, in the case of (i) or (ii) 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 interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity, 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 obligation of the Trustee to any Authenticating Agent under Section 614 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.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 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 interest for whose payment such money has been deposited with the Trustee.

## ARTICLE FIVE

### Remedies

#### SECTION 501. Events of Default.

"Event of Default", wherever used herein, 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 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 any Security at its Maturity; or
- (3) 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), 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 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
- (4) 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

(5) 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

(6) the commencement by the Company of a voluntary case 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.

**SECTION 502. Acceleration of Maturity; Rescission and Annulment.**

If an Event of Default occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities may declare the principal of all the Securities 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 shall become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment 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, 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,

(B) the principal of any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the 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, other than the non-payment of the principal of Securities 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 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 interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and on any overdue interest, at the rate borne by the 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 an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders 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 Proofs 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 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 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 interest, respectively.**

**SECTION 507. Limitation on Suits.**

No Holder of any Security 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;

(2) the Holders of not less than 25% in  
principal amount of the Outstanding  
Securities 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 of  
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;

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

**SECTION 508. Unconditional Right of Holders to  
Receive Principal 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 (subject to Section 307) interest on  
such Security on the respective Stated Maturities expressed  
in such Security 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 Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders 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 Security 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 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, 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 may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of or interest on any Security, 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 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 costs 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 Usury, 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 usury 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 as provided by the Trust Indenture Act. 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.**

The Trustee shall give the Holders notice of any default hereunder 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(3), 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.

**SECTION 603. Certain Rights of Trustee.**

Subject to the provisions of Section 601:

(1) 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;

(2) 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 shall be sufficiently evidenced by a Board Resolution;

(3) 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;

(4) the Trustee may consult with counsel and the written 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;

(5) 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;

(6) 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

(7) 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 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 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 this trust, 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, of the Company relating to \$100,000,000 of 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 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.**

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 under Section 611.

The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee 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.

The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

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, (A) the Company by a Board Resolution may remove the Trustee, or (B) 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 and the appointment of a successor Trustee.

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, the Company, by a Board Resolution, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, 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 appointment of a successor Trustee.

The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 106. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

**SECTION 611. Acceptance of Appointment by Successor.**

Every successor Trustee appointed hereunder 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 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. 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.

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 which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer 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 or 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, any 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 con-

solidated, 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 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 is made pursuant to this Section, the Securities 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 described in the within-mentioned Indenture.

\_\_\_\_\_,  
As Trustee

By \_\_\_\_\_,  
As Authenticating Agent

By \_\_\_\_\_,  
Authorized Officer

## 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

(1) semi-annually, not more than 15 days after each Regular Record Date, 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, and

(2) 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.**

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.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by 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.**

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.

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 the Securities are listed, if any, with the Commission and with the Company. The Company will notify the Trustee when the 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 Eight, 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 any Subsidiary of the Company as a result of such transaction as having been.

incurred by the Company or such Subsidiary of the Company 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 transaction, property or assets of the Company or any Subsidiary of the Company would become subject to a Lien which would not be permitted by Section 1008 (including Section 1008(a)(iii)), 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) 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 comply 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, or to surrender any right or power herein conferred upon the Company; or
- (3) to secure the Securities pursuant to the requirements of Section 1008 or otherwise; or
- (4) 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 (4) shall not adversely affect the interests of the Holders.

**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, 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 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 instalment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon, or change the place of payment where, or the coin or currency in which, any Security 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

(2) reduce the percentage in principal amount of the Outstanding Securities, 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.

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 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 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.

**ARTICLE TEN**

**Covenants**

**SECTION 1001. Payment of Principal and Interest.**

The Company will duly and punctually pay the principal of and interest on the Securities in accordance with the terms of the Securities and this Indenture.

**SECTION 1002. Maintenance of Office or Agency.**

The Company will maintain in St. Paul, Minnesota or the Borough of Manhattan, The City of New York an office or agency (which may be an office of the Trustee) where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities 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 (in or outside St. Paul, Minnesota and The City of New York) where the Securities 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 St. Paul, Minnesota or the Borough of Manhattan, The City of New York 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 Security Payments to Be Held in Trust.**

If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of or interest on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal or 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, it will, prior to each due date of the principal of or interest on any Securities, 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 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 (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent as such.

The Company may at any time, for the purpose of obtaining the 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 interest on any Security and remaining unclaimed for two years after such principal 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. Statement by 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 1005. 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 1006. 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 1007. 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 1008. 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, the date of this Indenture, (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 is 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 1008 and Section 1009 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 1008 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 Consolidated Tangible Assets of the Company.

(c) If the Company shall hereafter be required under this Section 1008 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 1008 has been complied with and that any instruments executed by the Company or any Subsidiary of the Company in the performance of this Section 1008 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 1009. 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 1008(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 1010. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 1008 and 1009, if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant 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 covenant or condition shall remain in full force and effect.

## ARTICLE ELEVEN

### Defeasance and Covenant Defeasance

#### SECTION 1101. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option by Board Resolution at any time, to have either Section 1102 or Section 1103 applied to the Outstanding Securities upon compliance with the conditions set forth below in this Article Eleven.

#### SECTION 1102. Defeasance and Discharge.

Upon the Company's exercise of the option provided in Section 1101 to have this Section 1102 applied to the Outstanding Securities, the Company shall be deemed to have been discharged from its obligations with respect to the Outstanding Securities as provided in this Section on and after the date the conditions set forth in Section 1104 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Securities and to have satisfied all its other obligations under the Securities and this Indenture insofar as the Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of Securities to receive, solely from the trust fund described in Section 1104 and as more fully set forth in such Section, payments in respect of the principal of and any interest on such Securities when payments are due, (2) the Company's obligations with respect to the Securities under Sections 304, 305, 306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article Eleven. Subject to compliance with this Article Eleven, the Company may exercise its option provided in Section 1101 to have this Section 1102 applied to the Outstanding Securities notwithstanding the prior exercise of its option provided in Section 1101 to have Section 1103 applied to the Outstanding Securities.

**SECTION 1103. Covenant Defeasance.**

Upon the Company's exercise of the option provided in Section 1101 to have this Section 1103 applied to the Outstanding Securities, (1) the Company shall be released from its obligations under Sections 1006 through 1009, inclusive, and Section 801 and (2) the occurrence of any event specified in Sections 501(3) (with respect to any of Sections 1006 through 1009, inclusive, and Section 801) and 501(4) shall be deemed not to be or result in an Event of Default, in each case with respect to the Outstanding Securities as provided in this Section on and after the date the conditions set forth in Section 1104 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(3)), 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 or in any other document, but the remainder of this Indenture and the Securities shall be unaffected thereby.

**SECTION 1104. Conditions to Defeasance or Covenant Defeasance.**

The following shall be the conditions to application of either Section 1102 or Section 1103 to the Outstanding Securities:

- (1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee that satisfies the requirements contemplated by Section 609 and agrees to comply with the provisions of this Article Eleven applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of Outstanding Securities, (A) money in an amount, or (B) U.S. Government Obligations that through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case 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, and which shall

be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any interest on the Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and the Securities. As used herein, "U.S. Government Obligations" means (x) any security that is (i) a direct obligation of the United States of America for the payment of which full faith and credit of the United States of America is pledged or (ii) an obligation 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 (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary 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 U.S. Government Obligation specified in Clause (x) and held by such custodian for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such U.S. Government Obligation, 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 depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the case of an election under Section 1102, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date first set forth hereinabove, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to the Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur; provided, that the provisions of this Clause (2) do not apply in the case of an election under Section 1103.

(3) In the case of an election under Section 1103, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Outstanding Securities will not recognize gain or loss for Federal income tax purposes as result of the deposit and Covenant Defeasance to be effected with respect to the Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur; provided, that the provisions of this Clause (3) do not apply in the case of an election under Section 1102.

(4) The Company shall have delivered to the Trustee an Officer's Certificate to the effect that the Securities, if then listed on any securities exchange, will not be delisted as a result of such deposit.

(5) No Event of Default (and no event that (after notice or lapse of time or both) would become an Event of Default (other than an Event of Default under Section 501(3) with respect to any of Sections 1006 through 1009, inclusive, and Section 801)) shall have occurred and be continuing at the time of such deposit or, with regard to any Event of Default or any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act.

(7) Such Defeasance or Covenant Defeasance shall 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.

(8) The Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

(9) Such Defeasance or Covenant 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 1105. Deposited Money and U.S. Government Obligations to be Held In Trust; Other Miscellaneous Provisions.**

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the trustee or other qualifying trustee (solely for purposes of this Section and Section 1106, the Trustee and any such other trustee are referred to collectively as the "Trustee") pursuant to Section 1104 in respect of the Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of Securities, of all sums due and to become due thereon in respect of principal and any interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1104 or the principal and interest received in respect thereof other than any such tax, fee or other charge that by law is for the account of the Holders of Outstanding Securities.

Anything in this Article Eleven to the contrary notwithstanding, 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 1104 with respect to Securities that, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Defeasance or Covenant Defeasance with respect to the Securities.

**SECTION 1106. Reinstatement.**

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article Eleven with respect to the Securities 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 the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article Eleven with respect to Securities until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1105 with respect to Securities in accordance with this Article Eleven; provided, however, that if the Company makes any payment of principal of or any interest on any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of Securities to receive such payment from the money so held in trust.

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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 Mark Kennedy

Mark R. Kennedy,  
Senior Vice President,  
Chief Financial Officer and  
Treasurer

Attest:

David A. Liebergen

David A. Liebergen  
Secretary

FIRST TRUST NATIONAL  
ASSOCIATION

By \_\_\_\_\_

Attest:

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 \_\_\_\_\_

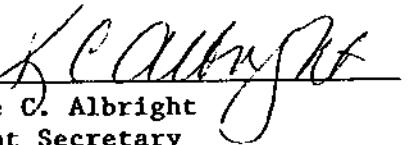
Attest:

FIRST TRUST NATIONAL  
ASSOCIATION

By Frank P. Leslie III

Frank P. Leslie III  
Assistant Vice President

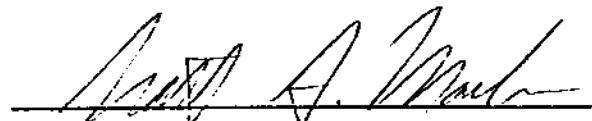
Attest:

  
Kristine C. Albright  
Assistant Secretary

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STATE OF WISCONSIN ) ss.:  
COUNTY OF Milwaukee )

On the 12th day of March, 1992, before me personally came Mark R. Kennedy, to me known, who, being by me duly sworn, did depose and say that he is Senior Vice President, Chief Financial Officer and Treasurer 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 ) ss.:  
COUNTY OF \_\_\_\_\_)

On the        day of March, 1992, before me personally came       , to me known, who, being by me duly sworn, did depose and say that he is 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.

STATE OF WISCONSIN ) ss.:  
COUNTY OF \_\_\_\_\_)

On the \_\_\_\_\_ day of March, 1992, before me personally came \_\_\_\_\_, to me known, who, being by me duly sworn, did depose and say that he is

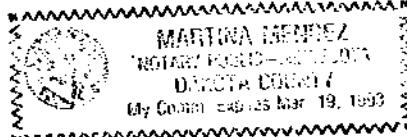
of  
ShopKo Stores, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

---

STATE OF MINNESOTA ) ss.:  
COUNTY OF DAKOTA)

On the 12th day of March, 1992, before me personally came Frank P. Leslie III, to me known, who, being by me duly sworn, did depose and say that he is  
Assistant 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.

*Martina Mendez*



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**EXHIBIT 4.1.2**

**SHOPKO STORES, INC.**

**TO**

**FIRST TRUST NATIONAL ASSOCIATION  
Trustee**

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**Indenture**

**Dated as of March 12, 1992**

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**\$100,000,000**

**9.25% Senior Notes due March 15, 2022**

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## SHOPKO STORES, INC.

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

<u>Trust Indenture Act Section</u>		<u>Indenture Section</u>
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(a)(2)	.	609
(a)(3)	.	Not Applicable
(a)(4)	.	Not Applicable
(b)	.	608 610
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(b)	.	613
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(d)	.	703
§ 314(a)	.	704
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(b)	.	Not Applicable
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Note: This table of contents shall not, for any purpose,  
be deemed to be a part of the Indenture.

INDENTURE, dated as of March 12, 1992, 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 of America, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of its 9.25% Senior Notes due March 15, 2022 (herein called the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and 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 agreed, for the equal and proportionate benefit of all Holders of the Securities, 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;

(4) the words "Article" and "Section" refer to an Article and Section, respectively, of this Indenture; and

(5) 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, and the words "include", "includes" and "including" mean, in each case, without limitation.

"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 a 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.

"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" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York or Wisconsin 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, 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" or "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.

"Covenant Defeasance" has the meaning specified in Section 1103.

"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.

"Defeasance" has the meaning specified in Section 1102.

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

"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.

"Interest Payment Date" means the Stated Maturity of an instalment of interest on the Securities.

"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 becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration or otherwise.

"Net Available Proceeds" from any Sale Transaction by any Person means cash or readily marketable cash equivalents received (including by way of sale or discounting of a note, instalment 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 1004 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 and no part of which is under construction or development for use by the Company or any Subsidiary 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.

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

(1) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment 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;

(3) 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, 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 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.

"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.

"Regular Record Date" for the interest payable on any Interest Payment Date means the June 1 or December 1

(whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"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, the date of this Indenture, 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, the date of 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 instalment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of 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 or 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 expense, (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 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.

"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 such successor Trustee.

"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" has the meaning specified in Section 1104.

"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 requirement set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (including certificates provided for in Section 1004) 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.

Any request, demand, authorization, direction, notice, consent, waiver or other action (including a vote on any action) provided or permitted 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.

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 acknowledgments 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.

The ownership of Securities shall be proved by the Security Register.

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.

The Company may, in the circumstances permitted by the Trust Indenture Act, set any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action (including a vote on any action) provided or permitted by this Indenture to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder 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, only the Holders on such date (or their duly appointed agents) shall be entitled to give or take (or vote on) the relevant action.

#### 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 latter 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 of Securities, any benefit or any 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 law 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 or Stated Maturity of any Security shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date or Stated Maturity, as the case may be.

**ARTICLE TWO  
Security Forms**

**SECTION 201. Forms Generally.**

The Securities and the Trustee's certificates of authentication shall be in substantially the forms set forth in this Article, 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.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

**SECTION 202. Form of Face of Security.**

SHOPKO STORES, INC.

9.25% Senior Notes due March 15, 2022

No. \_\_\_\_\_ \$ \_\_\_\_\_

SHOPKO STORES, INC., a corporation duly organized and existing under the laws of Minnesota (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on March 15, 2022, and to pay interest thereon from March 12, 1992 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 15 and December 15 in each year, commencing June 15, 1992 at the rate of 9.25% per annum, until the principal hereof is paid or made available for payment, and at the rate of 9.25% per annum on any overdue principal and on any overdue instalment 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 June 1 or December 1 (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 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 may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. Any interest payable on overdue principal or interest shall be payable immediately upon accrual to the Person entitled to receive such overdue principal or interest. Payment of the principal of and interest on this Security will be made at the office or agency of the Company maintained for that purpose in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever location the Company may designate from time to time), 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; provided, however, that at the option of the Company payment of interest may be made by check mailed 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.

By \_\_\_\_\_

Attest:

**SECTION 203. Form of Reverse of Security.**

This Security is one of a duly authorized issue of Securities of the Company designated as its 9.25% Senior Notes due March 15, 2022 (herein called the "Securities"), limited in aggregate principal amount to \$100,000,000, issued and to be issued under an Indenture, dated as of March 12, 1992 (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.

If an Event of Default shall occur and be continuing, the principal of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

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 under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, 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 herefor 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 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 registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever location the Company may designate from time to time), 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 authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities are exchangeable for a like aggregate principal amount of Securities 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.**

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

\_\_\_\_\_  
as Trustee

By \_\_\_\_\_  
Authorized Officer

**ARTICLE THREE**

**The Securities**

**SECTION 301. Title and Terms.**

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to \$100,000,000, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 304, 305, 306 or 906.

The Securities shall be known and designated as the "9.25% Senior Notes due March 15, 2022" of the Company. Their Stated Maturity shall be March 15, 2022, and they shall bear interest at the rate of 9.25% per annum, from March 12, 1992 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on June 15 and December 15, commencing June 15, 1992, until the principal thereof is paid or made available for payment.

The principal of and interest on the Securities shall be payable at the office or agency of the Company in St. Paul, Minnesota or the Borough of Manhattan, The City of New York (whichever the Company may designate from time to time) maintained for such purpose and at any other office or agency maintained by the Company for such purpose; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

**SECTION 302. Denominations.**

The Securities shall be issuable only in registered form without coupons and only 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 Secretary or one of its Assistant Secretaries. 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 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 such Company Order shall authenticate and deliver such Securities as in this Indenture provided and not otherwise.

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.

**SECTION 304. Temporary Securities.**

Pending the preparation of definitive Securities, 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 are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

**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 designated pursuant to Section 1002 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 at an office or agency of the Company designated pursuant to Section 1002 for such purpose, 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 any authorized denominations and of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount, 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 or 906 not involving any transfer.

**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 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 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 issued pursuant to this Section in exchange for any mutilated Security or in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, 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 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.

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 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 (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 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 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 (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 in any other lawful manner not inconsistent with the requirements of any securities exchange on which the 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 (subject to Section 307) 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, registration of transfer or exchange 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 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.**

Interest on the Securities 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 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, on demand of and 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,

and the Company, in the case of (i) or (ii) 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 interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity, 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 obligation of the Trustee to any Authenticating Agent under Section 614 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.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 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 interest for whose payment such money has been deposited with the Trustee.

## ARTICLE FIVE

### Remedies

#### SECTION 501. Events of Default.

"Event of Default", wherever used herein, 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 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 any Security at its Maturity; or

(3) 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), 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 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

(4) 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

(5) 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

(6) the commencement by the Company of a voluntary case 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.

**SECTION 502. Acceleration of Maturity; Rescission and Annulment.**

If an Event of Default occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities may declare the principal of all the Securities 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 shall become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment 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, 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,

(B) the principal of any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the 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, other than the non-payment of the principal of Securities 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 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 interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and on any overdue interest, at the rate borne by the 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 an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders 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 Proofs 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 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 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 interest, respectively.

**SECTION 507. Limitation on Suits.**

No Holder of any Security 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;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities 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 of 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;

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

**SECTION 508. Unconditional Right of Holders to Receive Principal 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 (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

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**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 Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders 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 Security 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 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, 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 may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of or interest on any Security, 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 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 costs 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 Usury, 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 usury 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 as provided by the Trust Indenture Act. 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.**

The Trustee shall give the Holders notice of any default hereunder 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(3), 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.

**SECTION 603. Certain Rights of Trustee.**

**Subject to the provisions of Section 601:**

(1) 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;

(2) 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 shall be sufficiently evidenced by a Board Resolution;

(3) 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;

(4) the Trustee may consult with counsel and the written 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;

(5) 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;

(6) 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

(7) 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 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 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 this trust, 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, of the Company relating to \$100,000,000 of 8.50% Senior Notes due March 15, 2002.

**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 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.**

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 under Section 611.

The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee 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.

The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

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, (A) the Company by a Board Resolution may remove the Trustee, or (B) 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 and the appointment of a successor Trustee.

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, the Company, by a Board Resolution, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, 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 appointment of a successor Trustee.

The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 106. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

**SECTION 611. Acceptance of Appointment by Successor.**

Every successor Trustee appointed hereunder 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 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. 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.

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 which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer 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 or 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, any 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 con-

solidated, 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 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 is made pursuant to this Section, the Securities 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 described in the within-mentioned Indenture.

\_\_\_\_\_,  
As Trustee

By \_\_\_\_\_,  
As Authenticating Agent

By \_\_\_\_\_,  
Authorized Officer

## 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

(1) semi-annually, not more than 15 days after each Regular Record Date, 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, and

(2) 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.**

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.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by 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.**

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.

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 the Securities are listed, if any, with the Commission and with the Company. The Company will notify the Trustee when the 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 Eight, 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 any Subsidiary of the Company as a result of such transaction as having been

incurred by the Company or such Subsidiary of the Company 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 transaction, property or assets of the Company or any Subsidiary of the Company would become subject to a Lien which would not be permitted by Section 1008 (including Section 1008(a)(iii)), 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) 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 comply 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, or to surrender any right or power herein conferred upon the Company; or
- (3) to secure the Securities pursuant to the requirements of Section 1008 or otherwise; or
- (4) 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 (4) shall not adversely affect the interests of the Holders.

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, 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 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 instalment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon, or change the place of payment where, or the coin or currency in which, any Security 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

(2) reduce the percentage in principal amount of the Outstanding Securities, 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.

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 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 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.

**ARTICLE TEN**

**Covenants**

**SECTION 1001. Payment of Principal and Interest.**

The Company will duly and punctually pay the principal of and interest on the Securities in accordance with the terms of the Securities and this Indenture.

**SECTION 1002. Maintenance of Office or Agency.**

The Company will maintain in St. Paul, Minnesota or the Borough of Manhattan, The City of New York an office or agency (which may be an office of the Trustee) where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities 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 (in or outside St. Paul, Minnesota and The City of New York) where the Securities 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 St. Paul, Minnesota or the Borough of Manhattan, The City of New York 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 Security  
Payments to Be Held in Trust.**

If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of or interest on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal or 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, it will, prior to each due date of the principal of or interest on any Securities, 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 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 (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent as such.

The Company may at any time, for the purpose of obtaining the 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 interest on any Security and remaining unclaimed for two years after such principal 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. Statement by 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 1005. 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 1006. 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 1007. 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 1008. 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, the date of this Indenture, (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 is 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 1008 and Section 1009 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 1008 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 Consolidated Tangible Assets of the Company.

(c) If the Company shall hereafter be required under this Section 1008 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 1008 has been complied with and that any instruments executed by the Company or any Subsidiary of the Company in the performance of this Section 1008 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 1009. 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 1008(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 1010. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 1008 and 1009, if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant 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 covenant or condition shall remain in full force and effect.

## ARTICLE ELEVEN

### Defeasance and Covenant Defeasance

#### SECTION 1101. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option by Board Resolution at any time, to have either Section 1102 or Section 1103 applied to the Outstanding Securities upon compliance with the conditions set forth below in this Article Eleven.

#### SECTION 1102. Defeasance and Discharge.

Upon the Company's exercise of the option provided in Section 1101 to have this Section 1102 applied to the Outstanding Securities, the Company shall be deemed to have been discharged from its obligations with respect to the Outstanding Securities as provided in this Section on and after the date the conditions set forth in Section 1104 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Securities and to have satisfied all its other obligations under the Securities and this Indenture insofar as the Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of Securities to receive, solely from the trust fund described in Section 1104 and as more fully set forth in such Section, payments in respect of the principal of and any interest on such Securities when payments are due, (2) the Company's obligations with respect to the Securities under Sections 304, 305, 306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article Eleven. Subject to compliance with this Article Eleven, the Company may exercise its option provided in Section 1101 to have this Section 1102 applied to the Outstanding Securities notwithstanding the prior exercise of its option provided in Section 1101 to have Section 1103 applied to the Outstanding Securities.

**SECTION 1103. Covenant Defeasance.**

Upon the Company's exercise of the option provided in Section 1101 to have this Section 1103 applied to the Outstanding Securities, (1) the Company shall be released from its obligations under Sections 1006 through 1009, inclusive, and Section 801 and (2) the occurrence of any event specified in Sections 501(3) (with respect to any of Sections 1006 through 1009, inclusive, and Section 801) and 501(4) shall be deemed not to be or result in an Event of Default, in each case with respect to the Outstanding Securities as provided in this Section on and after the date the conditions set forth in Section 1104 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(3)), 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 or in any other document, but the remainder of this Indenture and the Securities shall be unaffected thereby.

**SECTION 1104. Conditions to Defeasance or Covenant Defeasance.**

The following shall be the conditions to application of either Section 1102 or Section 1103 to the Outstanding Securities:

- (1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee that satisfies the requirements contemplated by Section 609 and agrees to comply with the provisions of this Article Eleven applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of Outstanding Securities, (A) money in an amount, or (B) U.S. Government Obligations that through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case 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, and which shall

be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any interest on the Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and the Securities. As used herein, "U.S. Government Obligations" means (x) any security that is (i) a direct obligation of the United States of America for the payment of which full faith and credit of the United States of America is pledged or (ii) an obligation 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 (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary 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 U.S. Government Obligation specified in Clause (x) and held by such custodian for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such U.S. Government Obligation, 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 depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the case of an election under Section 1102, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date first set forth hereinabove, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to the Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur; provided, that the provisions of this Clause (2) do not apply in the case of an election under Section 1103.

(3) In the case of an election under Section 1103, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Outstanding Securities will not recognize gain or loss for Federal income tax purposes as result of the deposit and Covenant Defeasance to be effected with respect to the Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur; provided, that the provisions of this Clause (3) do not apply in the case of an election under Section 1102.

(4) The Company shall have delivered to the Trustee an Officer's Certificate to the effect that the Securities, if then listed on any securities exchange, will not be delisted as a result of such deposit.

(5) No Event of Default (and no event that (after notice or lapse of time or both) would become an Event of Default (other than an Event of Default under Section 501(3) with respect to any of Sections 1006 through 1009, inclusive, and Section 801)) shall have occurred and be continuing at the time of such deposit or, with regard to any Event of Default or any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act.

(7) Such Defeasance or Covenant Defeasance shall 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.

(8) The Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

(9) Such Defeasance or Covenant 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 1105. Deposited Money and U.S. Government Obligations to be Held In Trust; Other Miscellaneous Provisions.**

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the trustee or other qualifying trustee (solely for purposes of this Section and Section 1106, the Trustee and any such other trustee are referred to collectively as the "Trustee") pursuant to Section 1104 in respect of the Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of Securities, of all sums due and to become due thereon in respect of principal and any interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1104 or the principal and interest received in respect thereof other than any such tax, fee or other charge that by law is for the account of the Holders of Outstanding Securities.

Anything in this Article Eleven to the contrary notwithstanding, 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 1104 with respect to Securities that, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Defeasance or Covenant Defeasance with respect to the Securities.

**SECTION 1106. Reinstatement.**

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article Eleven with respect to the Securities 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 the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article Eleven with respect to Securities until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1105 with respect to Securities in accordance with this Article Eleven; provided, however, that if the Company makes any payment of principal of or any interest on any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of Securities to receive such payment from the money so held in trust.

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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 Mark R. Kennedy

Mark R. Kennedy,  
Senior Vice President,  
Chief Financial Officer and  
Treasurer

Attest:

David A. Liebergen

David A. Liebergen  
Secretary

FIRST TRUST NATIONAL  
ASSOCIATION

By \_\_\_\_\_

Attest:

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 \_\_\_\_\_

Attest:

FIRST TRUST NATIONAL  
ASSOCIATION

By Frank P. Leslie

Frank P. Leslie III  
Assistant Vice President

Attest:

  
Kristine C. Albright  
Assistant Secretary

STATE OF WISCONSIN ) ss.:  
COUNTY OF Milwaukee )

On the 12th day of March, 1992, before me personally came Mark R. Kennedy, to me known, who, being by me duly sworn, did depose and say that he is Senior Vice President, Chief Financial Officer and Treasurer 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.

Mark A. Welsh

STATE OF MINNESOTA ) ss.:  
COUNTY OF \_\_\_\_\_)

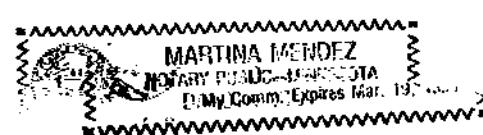
On the        day of March, 1992, before me personally came \_\_\_\_\_, to me known, who, being by me duly sworn, did depose and say that he is of First Trust National Association, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; 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.

STATE OF WISCONSIN ) ss.:  
COUNTY OF \_\_\_\_\_)

On the \_\_\_\_\_ day of March, 1992, before me personally came \_\_\_\_\_, to me known, who, being by me duly sworn, did depose and say that he is \_\_\_\_\_ 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 ) ss.:  
COUNTY OF DAKOTA)

On the 12th day of March, 1992, before me personally came Frank P. Leslie III, to me known, who, being by me duly sworn, did depose and say that he is Assistant 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.



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**EXHIBIT 10.18**



April 8, 1992

DALE KRAMER  
President

William J. Tyrrell  
3226 Bitters Court  
Green Bay, WI 54301

Dear Bill:

This letter is to outline the terms and conditions of your consulting agreement with ShopKo, Stores, Inc. (ShopKo). You have been an employee of ShopKo for many years and have served as President, rendering guidance, knowledge, and experience to ShopKo. Your expertise and experience in the retail industry are extremely valuable to us. You will terminate your status as an employee of ShopKo effective February 29, 1992, and you are retiring. Accordingly, it is the desire of ShopKo to retain you as an independent contractor/business consultant for a period of 24 months under the following terms and conditions:

1. Effective on March 1, 1992, ShopKo agrees to engage you as an independent contractor/business consultant, and you accept said engagement on the terms and conditions set forth herein. We agree that you are an independent contractor, and ShopKo obtains no right of control as to the method or means of accomplishing the work which you agree to perform for ShopKo.
2. You agree to render services in an advisory nature to ShopKo as shall be determined from time to time by its President or his designee including, without limitation, the following:  
(a) assist in defining program specifications for various projects and (b) complete various special projects from time to time as requested.

You shall perform these advisory services upon either the oral or written request of ShopKo's President or designee and such requests shall be reasonable as to both the nature of the services to be performed by you and their frequency. We agree that you shall (a) control both the aggregate number of hours worked and substantially all of the scheduling thereof; (b) be free to perform the services to be rendered hereunder at any location consistent with the goals to be accomplished, and you shall not be provided with a principal place of business by ShopKo; however, an office will be provided for material and mail, (c) be permitted to hire assistance at your own expense and discretion to assist in rendering services hereunder; however, it is your personal knowledge and ability which is

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

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William J. Tyrrell

the primary object of this consulting agreement; (d) render only advisory services on an irregular basis on matters with respect to which you have special competence by reason of your association with ShopKo and (e) not be required to comply with detailed orders or instructions, and you shall not be subject to the rules and regulations generally applicable to employees of ShopKo.

3. As remuneration for your services, ShopKo shall pay you at a rate of \$100,000 per year. You will be paid for your services on the first day of each month commencing one month after the effective date. We agree that ShopKo shall not withhold federal or state income taxes, social security taxes (Federal Insurance Contributions Act), unemployment insurance taxes (Federal Unemployment Tax Act and related state statutes) or worker's compensation taxes or premiums. Except at your own expense, you shall not be entitled to receive any health insurance, life insurance or any other fringe benefits customarily provided by ShopKo to its employees, except to the extent such benefits, if any, are generally made available to ShopKo retirees. You shall be reimbursed for reasonable air travel, automobile travel, food and lodging, and other necessary, direct business expenses incurred by you in the performance of the services to be rendered hereunder; provided, however, that you shall receive no reimbursement for such expenses unless the amount of such expenses and the substantiation thereof comply with all relevant rules and regulations of ShopKo and, in addition, unless such expenses are expressly authorized in advance by ShopKo's President.

Concurrent with this year, when the decision is made to eliminate the Oneida Country Club Membership as a perk, your salary level will be grossed up to cover the cost of the membership and the taxes paid on that incremental gross up. This will take place once the policy is incorporated for the rest of the senior management at ShopKo.

Being an outside consultant you are no longer eligible for a company car. I will make provisions with Dave Liebergen to sell the car to you at an extremely reasonable rate.

4. You agree during the term of this Agreement not to become an employee of, or provide similar consulting services to, any entity which owns or operates retail stores not serviced by ShopKo Stores, Inc. within the continental United States. You also agree not to become an owner or operator, directly or indirectly, of any entity which owns or operates retail stores within the continental United States without our written consent. Should a potential conflict arise, you agree to consult with the President before you become involved.

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

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Page 3  
William J. Tyrrell

5. During the period of this Agreement, if the Chief Executive Officer of ShopKo, for any reason, believes that it is not in the best interest of ShopKo to continue this Agreement with you, he may terminate this Agreement with ninety (90) days' written notice.

You also may terminate this Agreement upon ninety (90) days' written notice to ShopKo. This Agreement shall also terminate upon your death or complete and total disability. It is intended that this Agreement will be self renewing from year one to year two, however, both parties will review the matter of continuance thirty (30) days prior to the end of each ShopKo fiscal year (the last Saturday in February), and either party may elect during such period to terminate the Agreement at the end of such then-current fiscal year. If not otherwise terminated, this Agreement will expire February 28, 1994.

6. We agree that you are hereby given notice of your tax responsibilities as an independent contractor including your obligation to pay income taxes and the tax on self-employment income provided for by Section 1401 of the Internal Revenue Code of 1954, as amended, with respect to your remuneration hereunder. ShopKo hereby covenants and agrees that for all tax purposes, it shall treat you as an independent contractor and shall provide you with such tax forms or reports as may be required by Section 6041, or any successor provision thereto, or any other provision of the Internal Revenue Code of 1954, whether now in effect or hereafter enacted with respect to the obligations of service recipients and independent contractors. We each agree to comply fully with any and all additional information or tax return requirements which may be imposed directly on each of us by the Internal Revenue Code, as amended from time to time, or the Internal Revenue Services with respect to your qualification as an independent contractor hereunder.

If this letter correctly sets forth your understanding of the terms and conditions of the Consulting Agreement, please so indicate by signing the enclosed copy of this letter in the space indicated below and returning it to me at your earliest convenience.

Sincerely,

Dale P. Kramer  
President & CEO

UNDERSTOOD AND AGREED:

\_\_\_\_\_  
William J. Tyrrell

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

Date: \_\_\_\_\_

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**EXHIBIT 10.21**

**SHOPKO STORES, INC.**

**SENIOR OFFICERS DEFERRED COMPENSATION PLAN**

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**SHOPKO STORES, INC.**

**SENIOR OFFICERS DEFERRED COMPENSATION PLAN**

**Section 1. Establishment and Purpose**

**1.1 Establishment.** SHOPKO STORES, INC., a Minnesota corporation (hereinafter called the "Company"), hereby establishes effective as of February 1, 1992, this deferred compensation plan for certain of its executive employees which shall be known as the SHOPKO STORES, INC. SENIOR OFFICERS DEFERRED COMPENSATION PLAN (hereinafter called the "Plan").

**1.2 Purpose.** The purpose of the Plan is (i) to provide a means whereby amounts payable by the Company to executive employees may be deferred to a future period, (ii) to motivate such executive employees to continue to make contributions to the growth and profits of the Company and (iii) to provide such executive employees certain benefits as hereinafter described upon retirement, death, disability or other termination of employment.

**Section 2. Definitions**

**2.1 Definitions.**

Whenever used hereinafter, the following terms shall have the meaning set forth below:

- (a) "Age" means the age of the person as of his last birth date.
- (b) "Annual Bonus" means payments made from time to time by the Company to certain Employees pursuant to such bonus plans of the Company or any Subsidiary designated by the Retirement Committee as an "Annual Bonus" for purposes of this Plan.

- (c) "Beneficiary" means the person designated by a Participant pursuant to Section 6.7 hereof.
- (d) "Board" means the Board of Directors of the Company.
- (e) "Change of Control" means:
- (i) The acquisition by any person, entity or "group", within the meaning of Section 13(d) (3) or 14(d) (2) of the Securities Exchange Act of 1934 (the "Exchange Act"), other than the Company or any of its wholly owned subsidiaries, or any employee benefit plan of the Company and/or any of its wholly owned subsidiaries, 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 defined below); or
  - (ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the "Continuing Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, 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 promulgated under the Exchange Act) shall be, for purposes of

this Agreement, considered as though such person were a Continuing Director; or

(iii) 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 three quarters of the Continuing Directors.

- (f) "Chief Executive Officer" means the chief executive officer of the Company or the person who regularly performs the duties normally associated with such office on behalf of the Company.
- (g) "Company" means SHOPKO STORES, INC., a Minnesota corporation, and any Subsidiary thereof.
- (h) "Compensation" means the salary, Annual Bonus, commissions, and other similar amounts payable by the Company which would have been reported on Treasury Form W-2 (or any comparable successor form) if the Employee had not entered into a Deferred Compensation Election, but excluding expense reimbursement, moving expense payments, third-party sick pay, imputed income (from excess life insurance premiums, automobile use premiums or any other source), non-qualified stock options, disqualifying dispositions of stock acquired pursuant to the exercise of incentive stock options, stock appreciation rights, severance settlements and similar items of remuneration.
- (i) "Deferral Account" means the account maintained on the books of the Company with respect to each Deferral Unit for each Participant pursuant to Section 5 hereof.

- (j) "Deferral Period" means the period of years during which Compensation is being deferred (or transferred) for a particular Deferral Unit pursuant to a Participant's Deferred Compensation Election as described in Section 4 hereof.
- (k) "Deferral Unit" means the agreed upon amount to be deferred by a Participant under the Plan over a specified Deferral Period pursuant to a specific Deferred Compensation Election.
- (l) "Deferred Compensation Election" means a written agreement between a Participant and the Company whereby the Participant agrees to defer a portion of his Compensation and the Company agrees to make benefit payments all in accordance with the terms and conditions of the Plan.
- (m) "Determination Date" means the last day in each February which coincides with the end of each of the Plan Years and shall be the date on which the amount of a Participant's Deferral Account is determined as provided in Section 5 hereof.
- (n) "Director" means an individual who is a member of the Board and who is not an Employee of the Company.
- (o) "Disability" means a Participant's disability as defined in the ShopKo Stores Long-Term Disability Plan.
- (p) "Disability Benefit" means the disability benefit described in Section 6.2 hereof.
- (q) "Early Retirement Date" means the first day of the month following the month in which the Employee reaches age 55, has completed ten (10) or more years of service with the Company and has completed a Qualified Deferral Unit. Years of service with the Company shall include the period during which the Participant is disabled.

- (r) "Effective Date" means February 1, 1992.
- (s) "Employee" means an employee of the Company or any Subsidiary, branch or subdivision thereof, who (i) is employed in a recognized executive administrative or professional capacity and (ii) has significant management responsibilities or is highly compensated, and (iii) is compensated therefor in a combination of guaranteed base compensation plus periodic additions of variable amounts derived from sources including, but not limited to, an Annual Bonus, other incentive bonus awards, and commissions.
- (t) "Enrollment Period" means October 1 to October 31 each year for elections relating to the following year; provided, however, that pursuant to rules promulgated by the Retirement Committee, the Enrollment Period for the first Plan Year may be at some other time, and at different times for different Participants. Any deferral elections made during an Enrollment Period shall apply only to Compensation, including bonuses, earned after the date of the deferral election.
- (u) "Fiscal Year" means the approximate twelve-month period coinciding with the Company's fiscal year and ending on the last day in each February.
- (v) "Incomplete Deferral Unit" means a Deferral Unit for which a Deferred Compensation Election has been made and with respect to which the Participant has not completed deferrals of the total amount of the Stated Deferral.
- (w) "Initial Participant" means an Employee, eligible to participate in the Plan who has elected to participate in the Plan by filing a Deferred Compensation Election which is to be effective as of February 1, 1992.

- (x) "Normal Retirement Date" means the first day of the month following the month in which the Employee reaches age 62, has completed ten (10) or more years of service with the Company and has completed a Qualified Deferral Unit, or, if earlier, the first day of the month following the month in which the Employee reaches age 65 and has completed a Qualified Deferral Unit. Years of service with the Company shall include the period during which the Participant is disabled.
- (y) "Participant" means those eligible Employees as may be selected from time to time in the sole and absolute discretion of the Retirement Committee, who have elected to participate in the Plan by filing a Deferred Compensation Election hereunder.
- (z) "Plan Interest Rate" means:
- (i) with respect to the Basic Deferral Account provided for in section 5.3, the rate paid on seven (7)-year U.S. Treasury Notes as of June 30 of the year preceding the Plan Year to which the Plan Interest Rate applies;
  - (ii) with respect to the T-Note Wealth-Op Account provided for in section 5.3, One Hundred Twenty Percent (120%) of the one hundred twenty (120)-month rolling average of ten (10)-year U.S. Treasury Notes in effect as of June 30 of the calendar year immediately preceding the Plan Year to which the Plan Interest Rate applies.
  - (iii) the Retirement Committee shall compute the Plan Interest Rate for sections (i) or (ii) above on the basis of information concerning U.S. Treasury Notes published by Federal Reserve Board Publication G13, "Selected Interest Rates"; provided, however, that in the event

that the Federal Reserve Board does not publish such information or if for any other reason such information is not available therefrom, the Retirement Committee, in its sole and absolute discretion, will determine from other appropriate, authoritative sources the U.S. Treasury Note rate for purposes of computing the Plan Interest Rate.

- (iv) with respect to the Equity Wealth-Op Account provided for in section 5.3, the Deferral Account shall be credited as though it were invested in one or more of the following equity portfolios sponsored by The Prudential Series Fund, Inc., less applicable administrative charges determined annually by the Retirement Committee:

Common Stock  
Conservatively Managed  
Aggressively Managed  
Stock Index  
Bond

- (v) The Plan Interest Rate, as otherwise determined under (ii) and (iv) above, shall be reduced for a Plan Year by forty basis points (0.40%) if, during the twelve months preceding the Deferred Compensation Election for such year, the Participant has smoked at least one cigarette.

- (aa) "Plan Year" means the twelve-month period beginning on March 1 and ending on the last day in February in each calendar year; provided, however, that the first Plan Year shall be the period beginning on the Effective Date and ending on February 28, 1993.

- (bb) "Qualified Deferral Unit" means a Deferral Unit with respect to which at

least fifty percent (50%) of the aggregate amount of the Stated Deferral has been deferred.

(cc) "Retirement" means Termination of Employment after reaching the Early Retirement Date or Normal Retirement Date.

(dd) "Retirement Benefit" means the retirement benefit described in Section 6.1 hereof.

(ee) "Retirement Committee" means the SHOPKO STORES, INC. Retirement Committee appointed by the Chief Executive Officer for the purpose of performing certain administrative functions with respect to the employee benefit plans of the Company, including the Plan.

(ff) "Stated Deferral" means the amount with respect to each Deferral Unit which the Participant agrees to defer in accordance with Section 4 hereof from his Compensation .

(gg) "Subsidiary" means any corporation, the majority of the voting stock of which is directly or indirectly owned by the Company.

(hh) "Termination of Employment" means ceasing to be employed by the Company for any reason whatsoever, including, without limitation, terminations of employment which are voluntary or involuntary.

**2.2 Gender and Number.** Except when otherwise indicated by the context, any masculine terminology, when used in the Plan, shall also include the feminine gender and the definition or use of any term herein in the singular shall also include the plural.

### **Section 3. Eligibility for Participation**

Officers, vice presidents, and other employees designated by the Retirement Committee shall be eligible to participate in the Plan with respect to a Deferral

Period. Employees eligible to become Participants after the first Plan Year shall be entitled to defer Compensation hereunder as of the first day of the Plan Year following their selection. A Participant shall cease to be a Participant upon Termination of Employment. A person who for any reason ceases to be a Participant during a Deferral Period or otherwise shall have no further right to defer Compensation hereunder. The Retirement Committee, in its sole and absolute discretion, shall make such rules concerning leaves of absences, re-employment and other matters concerning eligibility for Participation hereunder as it deems to be in the best interests of the Company.

#### **Section 4. Election to Defer**

**4.1 Deferrals.** Any Employee eligible to become a Participant may elect not earlier than October 1 and not later than the next October 31 to defer Compensation, otherwise payable in subsequent Plan Years, in exchange for a Deferral Unit. An Initial Participant shall, prior to a date to be announced by the Retirement Committee, elect to defer Compensation, otherwise payable after the Effective Date, in exchange for a Deferral Unit. Any Employee eligible to become a Participant when first hired by the Company, may elect to defer Compensation, otherwise payable in subsequent Plan Years, in exchange for a Deferral Unit only in accordance with this Section 4.1.

**4.2 Procedure.** A Participant shall make the election provided for in Section 4.1 hereof by executing a Deferred Compensation Election in the form provided by the Company, subject to such terms and conditions as the Retirement Committee may impose, including, but not limited to, medical examinations, health screening, medical records reviews, etc. The Deferred Compensation Election shall set forth the

**Participant's Stated Deferral.** A Participant shall only be entitled to defer Compensation in the amounts and for the periods determined, from time to time, in the sole and absolute discretion of the Retirement Committee. A separate Deferred Compensation Election must be executed by a Participant with respect to each Deferral Unit. A Deferred Compensation Election shall be effective if, and only if, it is accepted by the Retirement Committee on behalf of the Company. If accepted by the Retirement Committee, the Compensation to be deferred, as specified in the Deferred Compensation Election, shall be deferred and the Participant's Compensation shall be correspondingly reduced.

**4.3 Types of Deferral for Initial Participants.** For Deferred Compensation Elections filed in the first Plan Year, an Initial Participant who is an Employee shall be entitled, subject to the other terms and conditions of the Plan, to defer the Participant's Compensation (not including the Participant's Annual Bonus) otherwise payable after the Effective Date, and the Participant's Annual Bonus otherwise payable in the calendar years which begin after the filing of such Deferred Compensation Election. All subsequent deferrals by Initial Participants shall be subject to the terms and conditions of Section 4.4 hereof.

**4.4 Types of Deferral for Other Participants.**

A Participant, other than an Initial Participant filing a Deferred Compensation Election in the first Plan Year, who is an Employee shall be entitled to defer, subject to the other terms and conditions of the Plan, the Participant's Compensation (including the Participant's Annual Bonus) payable during the Plan Years which begin after the filing of a Deferred Compensation Election and the Participant's

Annual Bonus which would otherwise be payable in the calendar years which begin after the filing of such Deferred Compensation Election.

**4.5 Fixed Deferrals.** Unless the requirements of this Section 4.5 are waived or otherwise modified by the Retirement Committee, a Participant shall only be entitled to defer Compensation as follows. The Deferred Compensation Election must provide for the deferral of a fixed amount of the Employee's Compensation, whether from the Employee's Annual Bonus or otherwise. In the event an Employee's Compensation changes in any Plan Year, such change shall not reduce the amount to be deferred pursuant to his Deferred Compensation Election. In the event an Employee's Annual Bonus in any Plan Year is in excess of the bonus norm amount assigned to his position under the Annual Bonus Plan for the preceding Fiscal Year, if the Employee's Deferred Compensation Election so provides, any such excess Annual Bonus shall be deferred and taken into account to prepay an already existing Incomplete Deferral Unit. Any prepayment with respect to an already existing Incomplete Deferral Unit shall reduce the amount to be deferred from the Employee's Compensation otherwise subject to the Deferred Compensation Election in subsequent Plan Years, in such manner as may be determined by the Retirement Committee in its sole and absolute discretion. Notwithstanding the foregoing, in the event an Employee's Annual Bonus or other Compensation is decreased in any Plan Year, the Retirement Committee may take such action with respect to waiving, modifying or otherwise amending an Employee's Deferred Compensation Election as it deems to be, in its sole and absolute discretion, in the best interests of the Company, including, without limitation, crediting the Employee's Deferral Account with all or any part of the balance of the Stated Deferral and charging interest to the Employee's Deferral Account on such credit, for the period

of time such credit has not been recovered by the Company, at a rate equal to the Company's cost of borrowing funds on a short-term, unsecured basis.

**4.6 Maximum and Minimum Deferrals.** Subject to Section 4.3 hereof, the following maximum and minimum deferrals of Compensation shall apply to the fixed amount to be deferred by any Participant, provided, however, that the Retirement Committee may from time to time, in its sole and absolute discretion, adjust the maximum and minimum deferrals permitted hereunder:

- (i) Minimum Deferral--\$2,000 per year from Compensation (not including Annual Bonus);
- (ii) Maximum Deferral--forty percent (40%) of Compensation (not including the Participant's Annual Bonus) in the Plan Year in which deferrals pursuant to the Participant's Deferred Compensation Election are first effective, plus one hundred percent (100%) of the bonus norm amount assigned to his position under the Annual Bonus Plan for the preceding Fiscal Year; provided, however, that in no case shall a Participant be allowed to make an election to defer if, after the deferral and for the year of the deferral, the Participant's Compensation will be below the maximum compensation which is subject to withholding for the OASDI portion of F.I.C.A. taxes for that year.

**4.7 Election to Defer Irrevocable.** Except as provided herein by action of the Retirement Committee, a Participant's election to defer any amounts of any nature whatsoever pursuant to the Plan shall be irrevocable when made and accepted by the Retirement Committee and shall not be subject to amendment or modification in any manner whatsoever thereafter. Notwithstanding the foregoing, the Retirement Committee, in its sole and absolute discretion, may allow a Participant, who either (i)

expects to retire or terminate employment in the near future but who has not yet retired or terminated employment with the Company for any reason whatsoever, or (ii) has received a promotion and corresponding Compensation increase of significant magnitude, to increase and accelerate amounts not yet earned to be deferred hereunder, without regard to the maximum deferrals set forth in Section 4.6 hereof, but only for the purpose of completing all or any portion of the Stated Deferral with respect to an already existing Incomplete Deferral Unit. Any such change concerning Compensation to be deferred hereunder shall be subject to such terms and conditions as the Retirement Committee may impose, in its sole and absolute discretion.

**4.8 Retirement Benefit Plan Equivalents.** In the event the Company's contributions on behalf of a Participant to any company-sponsored retirement plan pursuant to section 401 of the Internal Revenue Code (a "Qualified Plan") are decreased in any way due to a deferral of Compensation pursuant to the Plan, there shall be credited to the Participant's Deferral Account, in the Basic Deferral Account, on the day such Company contribution would have been made, an amount which is equal to the contribution that would otherwise have been made by the Company to the Qualified Plan. Such amount shall be determined by the Retirement Committee, in its sole and absolute discretion.

**4.9 Early Distribution Deferrals.** At the time of making a Deferred Compensation Election, a Participant may specify that the payment of the Deferral Unit pursuant to such election will be made at an earlier time than Retirement as provided in Section 6 hereunder; provided, however, that the Deferral Period shall in no case be less than eight years from the first day of the Plan Year to which the Deferred

Compensation Election applies; provided, further, that the payment of the Deferral Unit shall be in one lump sum, and, once paid, the Participant shall be entitled to no further benefits with respect to such Deferral Unit.

**Section 5. Deferral Accounts.**

**5.1 Establishment and Crediting of Account.** The Company shall establish a separate Deferral Account on its books with respect to each Deferral Unit for each Participant and shall credit to such Deferral Account certain amounts in accordance with the provisions of the Plan.

**5.2 Compensation Deferrals.** The Compensation that is deferred pursuant to a Participant's Deferred Compensation Election shall be credited to a Participant's Deferral Accounts of the date the Participant would have otherwise received the Compensation. The Company shall be entitled to deduct from the Participant's Compensation which is subject to a Deferred Compensation Election any amount it is required to withhold or collect under any federal, state or local law for taxes or other charges, including, without limitation, Social Security (F. I.C.A.) taxes. In addition, the plan may receive amounts on account of a rollover from a Participant's interest in another deferred compensation plan, within the discretion of the Retirement Committee, and pursuant to the terms of such plan; and such amounts shall be credited to the Participant's account in the same manner as provided above for deferrals, except that all such rollover amounts shall be credited to the Basic Deferral Account as provided in section 5.3(i).

**5.3 Account Elections.** As to each Deferred Compensation Election, and at the same time as the election, the Participant shall also make an election as to an

investment option account, from among the Basic Deferral Account, the T-Note Wealth-Op Account, and the Equity Wealth-Op Account, which will be a reference for measuring the performance of the Deferral Account for the amount deferred. The Company intends to measure the performance of the Account in accordance with the Participant's election but reserves the right to do otherwise. The following rules shall apply to such investment option account elections:

(i) **Basic Deferral Account.** All deferrals not otherwise designated for the T-Note Wealth-Op Account under (ii) of this section or the Equity Wealth-Op Account under (iii) of this section, shall be credited to the Basic Deferral Account. Once a year, during the Enrollment Period, if the balance in a Participant's Basic Deferral Account exceeds the Minimum Lump Sum Deferral Requirement for deferrals to the T-Note Wealth-Op Account or the Equity Wealth-Op Account, the Participant may elect to have all, but not less than all of the Basic Deferral Account rolled over to either the T-Note Wealth-Op Account or the Equity Wealth-Op Account (but not both).

Except as provided above, funds may not be switched from the Basic Deferral Account to any other account.

(ii) **T-Note Wealth-Op Account.** Deferrals may be designated for the T-Note Wealth-Op Account only to the extent that the deferrals to such account on any one Deferred Compensation Election exceed either the Minimum Lump Sum Deferral Requirement or the Minimum Annual Deferral Requirement defined as follows:

(a) **Minimum Lump Sum Deferral Requirement.** The Minimum Lump Sum Deferral Requirement shall mean the amount from the following table that corresponds to the Age of the Participant at the time of the Deferred Compensation Election on which the lump sum

deferral is made:

<u>Age</u>	<u>Minimum Lump Sum Deferral</u>		
Equal to or less than	40		\$11,000
Equal to or greater than	41 but less than 51		15,000
"	51 "	61	22,000
"	61 "	71	29,000

(b) **Minimum Annual Deferral Requirement.** The Minimum Annual Deferral Requirement shall mean the amount from the following table that corresponds to the Age of the Participant when he makes his original commitment to defer such amount, but only if at the time of the Deferred Compensation Election the Participant agrees in writing to the deferral of such amount for at least four consecutive years.

<u>Age</u>	<u>Minimum Annual Deferral</u>		
Equal to or less than	40		\$3,000
Equal to or greater than	41 but less than 51		3,900
"	51 "	61	5,500
"	61 "	66	6,400
"	66 "	71	7,300

(iii) **Equity Wealth-Op Account.** Deferrals by the Participant may be designated for the Equity Wealth-Op Account only to the extent that the deferrals to such account in any one Deferred Compensation Election exceed either the Minimum Lump Sum Deferral Requirement or the Minimum Annual Deferral Requirement as defined in (ii) of this section. On an annual

basis, a Participant shall elect in writing how amounts should be invested. Once designated for the Equity Wealth-Op Account, funds may not be switched to any other account, except that once a year, during the Enrollment Period, a Participant may direct in writing that the funds in the Equity Wealth-Op Account be re-allocated among the equity portfolios as designated by the Participant in such writing. Any such switches among portfolios shall take effect on the January 1 following written notice from the Participant to the Retirement Committee making the election to switch.

(iv) **Administrative Rules.** The Retirement Committee may make any changes in the available account selections or rules governing the election of one account option or another as it deems advisable from time to time.

**5.4 Interest.** As of each Determination Date, an amount equal to interest earned since the last preceding Determination Date shall be credited to a Participant's Deferral Account. Interest shall be calculated by applying the Plan Interest Rate, compounded to produce an effective annual yield equal to the Plan Interest Rate, to the balance of the Deferral Accounts since the last preceding Determination Date pursuant to such computational methods as shall be adopted by the Retirement Committee, in its sole and absolute discretion. Interest for the Equity Wealth-Op Account may be negative to reflect a loss rather than a gain in the account.

**5.5 Contractual Obligation.** It is intended that the Company is under a contractual obligation to make payments in accordance with the terms and conditions of the Plan. A Participant shall have no rights to such payments, other than as a general, unsecured creditor the Company. Such account balances shall not be financed through a trust fund or any other assets or properties in which a Participant has any interest whatsoever. Payments from such accounts shall be made out of the general

funds of the Company. All such accounts shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant pursuant to the Plan. Such accounts shall not constitute or be treated as a trust fund or an interest in any specific assets or properties of the Company of any sort.

**5.6 Charges Against and Balances of Accounts.** Each Participant's Deferral Account, as of each Determination Date, shall consist of the balance of such account as of the immediately preceding Determination Date, plus Deferral Amounts as credited to the Deferral Account since the immediately preceding Determination Date, plus the amount to be credited to such account by the Company pursuant to Section 5.4 hereof, less the amount of all distributions, if any, made from such account since the immediately preceding Determination Date.

**5.7 Statement of Accounts.** The Retirement Committee, in its sole and absolute discretion, shall from time to time provide to each Participant a statement in such form as the Retirement Committee deems desirable setting forth the balance to the credit of such Participant in his Deferral Account.

## **Section 6. Payment of Benefits.**

**6.1 Retirement Benefits.** Upon a Participant's Retirement, the Company shall:

**6.1.1 Incomplete Deferral Units.** Pay to the Participant the Deferral Account balance with respect to any Incomplete Deferral Unit that is not a Qualified Deferral Unit in accordance with the terms and conditions of Section 6.9 hereof.

**6.1.2 Qualified Deferral Units.** Pay to the Participant, with respect to any Qualified Deferral Unit, a Retirement Benefit equal to the amount of his Deferral Account for

such Qualified Deferral Unit determined as of the Determination Date coincident with or next following the date of Retirement. Each Retirement Benefit shall be payable in accordance with Section 6.6 hereof. With respect to a Qualified Deferral Unit for which the Stated Deferral has not been completed in full as of the date of Retirement, the Company shall credit the Participant's Deferral Account with the balance of the Deferral Unit and shall charge interest to the Participant's Deferral Account on such credit, for the Period of time such credit has not been recovered by the Company, at a rate equal to the Company's cost of borrowing funds on a short-term, unsecured basis, in effect on the date of Retirement, as determined by the Retirement Committee. The Company shall recover the amount credited to complete a Qualified Deferral Unit, and interest accrued on the credit (i) from the first installment payable pursuant to Section 6.6.1, and from each successive installment until the total amount of the credit and accrued interest has been recovered, or (ii) ratably over the benefit payment period under Section 6.6.1, as the Retirement Committee, in its sole and absolute discretion, shall elect.

## **6.2 Benefits Upon Disability.**

**6.2.1 Disability Benefits.** Upon a Participant's Termination of Employment due to Disability, the Company shall complete the Participant's deferrals with respect to an already existing Incomplete Deferral Unit in accordance with the Participant's Deferred Compensation Election. In no event shall a Participant be entitled to any Disability Benefit based on changes in his physical or mental condition occurring after Termination of Employment. Such a Participant's Retirement Benefit shall commence upon the earliest of the Early or Normal Retirement Dates provided for in Section 6.1. The Company shall recover amounts credited to complete such an already existing Incomplete Deferral Unit pursuant to this Section 6.2.1, with interest

at the rate of five (5%) percent, from the Deferral Account prior to the commencement of benefit payments, and the benefits to be paid shall be calculated on the basis of the Deferral Account after such recovery.

**6.2.2 Survivorship Benefits.** If a Participant dies following a Termination of Employment due to Disability pursuant to Section 6.2.1, but prior to the receipt of any Retirement Benefits the Company shall pay to the Participant's Beneficiary the survivor's benefit provided for in Section 6.5.1 after the Company has recovered amounts credited to complete an Incomplete Deferral Unit as provided in Section 6.2.1.

**6.3 Benefits For Employees Upon Other Terminations of Employment.**

**6.3.1 Amount of Benefit.** Upon a Participant's Termination of employment for reasons other than death, Disability, or Retirement, the rights of the Participant, his spouse, if any, and his Beneficiary to benefits under this Plan shall cease, except that the Company shall pay to the Participant a benefit determined as follows:

- (i) If the Participant at the date of Termination of Employment has been employed by the Company for at least ten (10) years, but has not attained age 55, the benefit under this Section 6.3.1 shall equal the amount of the Participant's Deferral Account as of the date of Termination of Employment calculated as if such date were a Determination Date.
- (ii) If the Participant at the date of Termination of Employment has not been employed by the Company for ten (10) years, the benefit under this Section 6.3.1 shall equal the amount in the Participant's Deferral Account calculated as if such date were a Determination Date, except that the Plan Interest Rate on the account shall be recomputed as if the amounts had been deferred

originally to the Basic Deferral Account.

**6.3.2 Form of Payment.** The amount in the Participant's Deferral Account shall be payable in a single lump-sum payment within one hundred eighty (180) days of the date of Termination of Employment unless at the time of the Participant's initial Deferred Compensation Election he elects:

- (i) immediate installment payments, in which case the Deferral Account shall be paid in ten equal annual installments commencing within sixty (60) days of the date of Termination of Employment, with interest on unpaid amounts compounded to provide an effective annual yield equal to the Plan Interest Rate for the Basic Deferral Account; or,
- (ii) deferred installment payments commencing on the date the Participant reaches age 62, unless the Participant has less than ten years of service with the Company as of the Termination of Employment in which case payments will begin on the date the Participant reaches age 65, and in either case, the Deferral Account shall be paid in the same manner as the normal form of Retirement Benefit pursuant to Section 6.6.1 with interest calculated both before and after benefits commence at a rate equal to the Basic Deferral Account rate,

provided, however, that in the case of installment payments, the minimum installment payment shall be the lesser of \$12,000 or the amount of the Deferral Account, and the number of installments shall be adjusted accordingly if necessary.

**6.4 Benefits Upon Termination of Employment Following a Change of Control.**

**6.4.1 Payment of Benefits.** If, within twenty-four (24) months after a Change of Control, a Termination of Employment with respect to a Participant occurs for any

reason, the rights of the Participant, his spouse, if any, and his Beneficiary to benefits under the Plan shall cease, except that the Participant shall receive the full amount in his Deferral Account on the date of Termination of Employment calculated as if such date were a Determination Date and without reduction for any reason whatsoever. Such benefit shall be payable in a lump sum within one hundred eighty (180) days of the Termination of Employment. Following such payment, the Participant shall have no further right to any benefit pursuant to this Plan.

**6.4.2 Reduction in Plan Interest Rate.** If, within twenty-four (24) months of a Change of Control, the Plan is amended to reduce the Plan Interest Rate on a prospective basis, without the agreement of a majority of the then Participants, a Participant shall then receive his Deferral Account balance calculated without regard to the reduced rate and as if the date of such reduction were a Determination Date. The amounts so calculated shall be paid in five (5) equal annual installments commencing on the first day of the month following such reduction in Plan Interest Rate in accordance with the terms and conditions of Section 6.6.1.

**6.4.3 Termination of Plan.** In the event of a Change of Control, the Board may within twelve (12) months thereof terminate the Plan and, notwithstanding any provision of the Plan to the contrary, a Participant shall then receive the full amount in his Deferral Account, calculated as if the date of the termination of the Plan were a Determination Date and without reduction for any reason whatsoever. Such benefit shall be payable in a lump sum as soon as possible following the decision of the Board to terminate the Plan.

**6.4.4 Parachute Payments.** Notwithstanding anything in the Plan to the contrary, any amount paid under this Section 6.4 which constitutes a "parachute payment," as

defined in Section 280G of the Internal Revenue Code of 1986, as amended, or any successor provision thereto, shall be increased to be equal to one hundred forty percent (140%) of the amount which would otherwise be paid to a Participant hereunder.

#### **6.5 Survivorship Benefits.**

**6.5.1 Death Prior to Retirement.** If a Participant dies after the start of a Plan Year with respect to which a Deferred Compensation Election has been made, but prior to Retirement, or if a Participant dies following a Termination of Employment due to Disability pursuant to Section 6.2.1 but prior to the receipt of any benefits, or if a Participant dies following a Termination of Employment for reasons other than death, Disability, or Retirement but prior to receiving all benefits due hereunder, the Company shall pay to the Participant's Beneficiary a benefit equal to the Participant's Deferral Account at death less any amounts paid by the Company pursuant to Section 6.2.1 to complete an Incomplete Deferral Unit with interest calculated as provided in that section, payable in one lump sum as soon as possible after the Retirement Committee receives a certified copy of the Participant's death certificate. Payment of the benefit under this Section 6.5.1 shall relieve the Company of any further obligation to pay benefits under the Plan.

**6.5.2 Death After Commencement of Benefits.** If a Participant dies after payments pursuant to Sections 6.1 or 6.2 have commenced hereunder, but prior to receiving all of the scheduled annual payments, the Company shall pay the remaining annual payments to the Participant's Beneficiary.

## **6.6 Form of Payment of Benefits.**

**6.6.1 Normal Form.** The normal form of payment of Retirement Benefits shall be equal annual installments based upon the Deferral Account balance as of the Determination Date specified in Section 6.1.2 or Section 6.1.3, whichever applies, commencing on the first day of the month following such Determination Date, and continuing on the anniversary date of the first payment thereafter for a period of fifteen (15) years unless the Participant elects to receive the benefit in a lump sum as provided in a Participant's Deferred Compensation Election or as provided in a Participant's written election delivered to the Retirement Committee at least thirteen months prior to the Determination Date as provided above. The remaining balance of the Participant's Deferral Account, if any, shall continue to be credited on each Determination Date with the Plan Interest Rate, compounded annually, during such period. The Participant's annual payments shall be calculated based on an assumed interest rate established by the Retirement Committee from time to time. If the interest actually credited with respect to a Plan Year is more than that assumed, the difference shall be paid to the Participant with the amounts otherwise payable in the next Plan Year or at such other time as the Retirement Committee, in its sole and absolute discretion, shall determine. If the interest actually credited is less than that assumed, the difference shall be deducted either (i) ratably from the amounts payable in following Plan Years, or (ii) from the first amounts payable in the next Plan Year, as the Retirement Committee, in its sole and absolute discretion, shall determine.

**6.6.2 Small Deferral Accounts.** Notwithstanding any other provision of the Plan or a Participant's Deferred Compensation Election, the Retirement Committee, taking into account the expense and inconvenience of administering the Plan with respect to

small deferral accounts as set forth herein, shall distribute a Participant's Retirement Benefit in a lump sum. This Section 6.6.2 shall only apply to small deferral accounts which shall mean all deferral accounts with a balance of \$12,000 or less at the time Retirement Benefits payable pursuant to Section 6.6.1 would otherwise commence.

**6.6.3 Deferred Payment.** If a Participant's Deferred Compensation Election so provides, the commencement of Retirement Benefit payments may be deferred for a period so elected by the Participant, up to five years, but not later than the Plan Year in which the Participant reaches age 70-1/2. If the Retirement Committee, in its sole and absolute discretion, accepts such a deferral, the Deferral Account shall be credited with interest by applying the Plan Interest Rate, compounded annually, during the period between Termination of Employment and the commencement of benefit payments hereunder.

**6.7 Recipients of Payments; Designation of Beneficiary.** All payments to be made by the Company shall be made to the Participant, if living. Except as otherwise provided herein, in the event of a Participant's death prior to the receipt of all benefit payments, all subsequent payments to be made under the Plan shall be to the Beneficiary of the Participant in accordance with a Participant's election pursuant to Section 6.6 hereof, subject to the right granted the Retirement Committee pursuant to Section 6.5.2. Unless otherwise specified in the Participant's Beneficiary designation, in the event a Beneficiary dies before receiving all payments due to such Beneficiary pursuant to this Plan, the then remaining payments shall be paid to the legal representatives of the Beneficiary's estate. The Participant shall designate a Beneficiary, or during his lifetime change such designation, by filing a written notice of such designation with the Company in such form and subject to such rules and

regulations as the Retirement Committee may prescribe. If the Participant's Compensation constitutes community property, then any Beneficiary designation made by the Participant other than a designation of such Participant's spouse shall not be effective if any such Beneficiary or beneficiaries are to receive more than fifty percent (50%) of the aggregate benefits payable hereunder, unless such spouse shall approve such designation in writing. If no designation shall be in effect at the time when any benefits payable under this Plan shall become due, the Beneficiary shall be the legal representatives of the Participant's estate. In the event a benefit is payable to a minor or person declared incompetent or to a person incapable of handling the disposition of his property, the Retirement Committee may determine to pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent or person. The Retirement Committee may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Retirement Committee and the Company from all liability with respect to such benefit.

**6.8 Financial Emergency.** In the event of a Participant's severe financial hardship, the Retirement Committee, in its sole and absolute discretion, may alter the timing or manner of payment of any benefits or deferred amounts to be paid pursuant to the Plan or release the Participant from the obligation of making all or any part of remaining Stated Deferrals with respect to an Incomplete Deferral Unit. Severe financial hardship shall be deemed to have occurred in the event of the Participant's impending bankruptcy, a dependent's long and serious illness or other events of similar magnitude. The Retirement Committee's decision in passing upon the severe financial hardship of the Participant and the manner in which, if at all, the payment

or deferral of any amounts pursuant to the Plan shall be altered or modified shall be final, conclusive and not subject to appeal. In the event that the Retirement Committee makes a finding of severe financial hardship, it may:

- (i) If the Participant has an Incomplete Deferral Unit and the Retirement Committee has determined to release the Participant from the obligation of making the remaining Stated Deferrals with respect thereto, then distribute to the Participant all or any portion of the Participant's Deferral Account with respect to such Incomplete Deferral Unit.
- (ii) Distribute to the Participant all or any part of the balance of the Participant's Deferral Account with respect to a completed Deferral Unit. Prior to any distribution or transfer under this Section 6.8(ii) of all, but not less than all, the Deferral Account balance with respect to any completed Deferral Unit, such Deferral Account shall be credited with interest earned at the Plan Interest Rate from the immediately preceding Determination Date as if the date of the distribution or transfer were a Determination Date. The Retirement Committee shall have complete and absolute discretion in determining the form of any distribution to be made pursuant to this Section 6.8(ii). The Participant, his spouse, if any, and his Beneficiary waive all rights under the Plan with respect to amounts distributed or transferred in accordance with the terms of this Section 6.8(ii).

The Participant shall have no right to make up any amount distributed or transferred as a result of a determination of financial emergency by the Retirement Committee pursuant to this Section 6.8.

**6.9 Payment of Incomplete Deferral Units.** Any amount attributable to an Incomplete Deferral Unit shall be paid in accordance with the terms of Section 6.6;

provided, however, that for the purposes of this section 6.9, the value of an Incomplete Deferral Unit shall be recomputed assuming that the Plan Interest Rate for the unit had been equal to the rate for the Basic Deferral Account.

**6.10 Pre-Retirement Benefits.** In the event that a Participant has made the election provided for in Section 4.9 to receive amounts prior to Retirement, such pre-retirement benefits shall be paid in accordance with such election. The calculation of the amount of such pre-retirement benefit shall be made in accordance with the terms and conditions of the Plan, including, without limitation, Section 6.3 hereof.

#### **Section 7. Forfeiture**

In the event that a Participant has deferred amounts under the Plan, which have not been paid, and such Participant:

- (i) voluntarily terminates employment with the Company before the expiration of twelve (12) months following the date on which such Participant first elected to defer Compensation hereunder pursuant to Section 4 hereof;
- (ii) engages in felonious, fraudulent or other activity resulting in harm to the Company;
- (iii) divulges any of the Company's confidential information or trade information or trade secrets to a competitor; or
- (iv) within one (1) year following a Termination of Employment, other than an involuntary termination, engages directly or indirectly on his own behalf or as a partner, stockholder (other than as a holder of less than one percent (1%) of the outstanding stock of any class of any publicly traded company), director, trustee, principal, agent, employee, consultant or otherwise of any person, firm or corporation in competition with or adverse to the interests of

the Company within the entire territory of operations of the Company, then the Board, in its sole and absolute discretion, may terminate all or any part of a Participant's right to any benefits whatsoever hereunder including, but not limited to, the right to receive any amount with respect to any Deferral Account or Deferral Unit. Any forfeiture pursuant to this Section 7 shall be determined by a majority vote of the entire Board (not including the Participant), but only after the Participant in question shall have had an opportunity to appear, in person, before the Board to discuss the matter; provided, however, that a Participant who terminates as described in clause (i) above shall be entitled to receive at least an amount equal to the Participant's Deferral Account balance less all amounts credited as interest; provided, further, that a Participant who engages in the activities described in clause (iv) above shall be entitled to receive at least an amount equal to the Participant's Deferral Account balance, redetermined on a retroactive basis from the date of the Participant's first deferral using an assumed Plan Interest Rate of five (5%) percent.

In the event of a Participant's suicide during the first two (2) years after the filing of any Deferred Compensation Election, the Retirement Committee, in its sole and absolute discretion, may terminate all or any part of a Participant's (or Beneficiary's) right to receive any benefits whatsoever hereunder, including, but not limited to, the right to receive any amount with respect to any Deferral Account or Deferral Unit; provided, however, that the Beneficiary of such a Participant shall be entitled to receive at least an amount equal to that portion of the Participant's Stated Deferral which has in fact been deferred pursuant to the Plan, without increase for any Plan Interest Rate, growth addition or any other amount, payable in such manner as the Retirement Committee, in its sole and absolute discretion, shall determine.

In the event a Participant (i) makes any material misstatement of information

in connection with any Deferred Compensation Election, (ii) fails to disclose to the Company or its agents any material item of his personal or medical history (including, but not limited to, habits of drug, chemical or tobacco use), or (iii) takes any other action (or fails to take any action), which action (or failure to act) results in a loss to the Company under the Plan, then the Retirement Committee, in its sole and absolute discretion, may terminate all or any part of a Participant's (or Beneficiary's) right to receive any benefits whatsoever hereunder, including, but not limited to, the right to receive any amount with respect to any Deferral Account or Deferral Unit.

#### **Section 8. Non-Transferability**

In no event shall the Company make any payment under the Plan to any assignee or creditor of a Participant or a Beneficiary. Prior to the time of payment hereunder, a Participant or Beneficiary shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under the Plan nor shall such rights be assigned or transferred by operation of law.

#### **Section 9: Administration**

**9.1 Administration.** This Plan shall be administered by the Retirement Committee. The Retirement Committee may from time to time establish rules for the administration of the Plan that are not inconsistent with the provisions of the Plan.

**9.2 Finality of Determination.** Any interpretation or determination by the Retirement Committee as to any disputed questions arising under the Plan, including questions of fact (such as when Disability exists) or questions of construction and interpretation, shall be final, binding and conclusive upon all persons.

**9.3 Claims Procedure.** If any Participant, beneficiary or other properly interested party is in disagreement with any determination that has been made under the Plan, a claim may be presented, but only in accordance with the procedures set forth herein.

**9.3.1 Original Claim.** Any Participant, beneficiary or other properly interested party may, if he so desires, file with the Retirement Committee a written claim for benefits or a determination under the Plan. Within ninety (90) days after the filing of such a claim, the Retirement Committee shall notify the claimant in writing whether his claim is upheld or denied in whole or in part or shall furnish the claimant a written notice describing specific special circumstances requiring a specified amount of additional time (but not more than one hundred eighty (180) days from the date the claim was filed) to reach a decision on the claim. If the claim is denied in whole or in part, the Retirement Committee shall state in writing:

- (i) the reasons for the denial;
- (ii) the references to the pertinent provisions of this Plan on which the denial is based;
- (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) an explanation of the claims review procedure set forth in this section.

**9.3.2 Claim Review Procedure.** Within sixty (60) days after receipt of notice that his claim has been denied in whole or in part, the claimant may file with the Retirement Committee a written request for a review and may, in conjunction

therewith, submit written issues and comments. Within sixty (60) days after the filing of such a request for review, the Retirement Committee shall notify the claimant in writing whether, upon review, the claim was upheld or denied in whole or in part or shall furnish the claimant a written notice describing specific special circumstances requiring a specified amount of additional time (but not more than one hundred twenty (120) days from the date the request for review was filed) to reach a decision on the request for review.

### **9.3.3 General Rules.**

- (i) No inquiry or question shall be deemed to be a claim or a request for a review of a denied claim unless made in accordance with the foregoing claims procedure. The Retirement Committee may require that any claim for benefits and any request for a review of denied claim be filed on forms to be furnished by the Retirement Committee upon request.
- (ii) All decisions on claims and on requests for a review of denied claims shall be made by the Retirement Committee. In accordance with Section 9.2 hereof, decisions of the Retirement Committee shall be final, binding and conclusive upon all persons.
- (iii) The Retirement Committee may, in its discretion, hold one or more hearings on a claim or a request for a review of a denied claim.
- (iv) Claimants may be represented by a lawyer or other representative (at their own expense), but the Retirement Committee reserves the right to require the claimant to furnish written authorization. A claimant's representative shall be entitled to copies of all notices given to the claimant.
- (v) The decision of the Retirement Committee on a claim and on a request for a review of a denied claim shall be served on the claimant in writing. If a

decision or notice is not received by a claimant within the time specified, the claim or request for a review of a denied claim shall be deemed to have been denied.

(vi) Prior to filing a claim or a request for a review of a denied claim, the claimant or his representative shall have a reasonable opportunity to review a copy of this Plan and all other pertinent documents in the possession of the Company and the Retirement Committee.

(vii) The individuals serving on the Retirement Committee shall, except as prohibited by law, be indemnified and held harmless by the employer from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any individual of this Committee with respect to this plan, unless such liability arises from the individual's own claim for his or her own benefit, the proven gross negligence, bad faith, or (if the individual had reasonable cause to believe his or her conduct was unlawful) the criminal conduct of such individual. This indemnification shall continue as to an individual who has ceased to be a member of the Retirement Committee for the employer and shall enure to the benefit of the heirs, executors and administrators of such an individual.

**9.4 Expenses.** The cost of payment from the Plan and the expense of administering the Plan shall be borne by the Company.

**9.5 Tax Withholding.** The Company shall have the right to deduct from all payments to be made under the Plan, any federal, state or local taxes or other charges required by law to be withheld with respect to such payments.

### **Section 10. Amendment and Termination**

The Company expects the Plan to be permanent but since future conditions affecting the Company cannot be anticipated or foreseen, the Company must necessarily and does hereby reserve the right to amend, modify or terminate the Plan at any time and in any manner whatsoever by action of the Board or the Retirement Committee (with the written concurrence of the Chief Executive Officer). Any such amendment, modification or termination of the Plan may occur either (i) without limitation, by resolution of the Board or (ii) in any respect that does not materially increase the cost of the Plan to the Company, by action of the Retirement Committee (with the written concurrence of the Chief Executive Officer); provided, however, that any changes to the Plan shall have prospective effect only. If the Plan is terminated, any remaining deferrals under a Deferred Compensation Election shall not be made and the amount in each Participant's Deferral Account, after being recalculated to take into account any lower Plan Interest Rate, shall be payable as determined by the Retirement Committee in its sole and absolute discretion.

### **Section 11. Applicable Law**

The Plan shall be governed and construed in accordance with the laws of the State of Wisconsin. The invalidity of any portion of the Plan shall not invalidate the remainder hereof and said remainder shall continue in full force. The captions and other titles herein are designed for convenience only and are not to be resorted to for the purpose of interpreting any provision of the Plan.

### **Section 12. No Vested Rights**

The Plan and elections hereto shall not be deemed or construed to be a written contract of employment between any Employee and the Company, nor shall any

provision of the Plan (i) restrict the right of the Company to discharge any Employee or (ii) in any way whatsoever grant to any Employee the right to receive any guaranteed base compensation, Annual Bonus, incentive bonus awards, commissions, fees or any other payments of any nature whatsoever.

### **Section 13. Binding Agreement**

The provisions of the Plan shall be binding upon the Participant, his or her heirs, personal representatives and beneficiaries, and subject to the rights granted to amend or terminate the Plan, the provisions of the Plan shall also be binding upon the Company, its successors and assigns.

Pursuant to a resolution, duly adopted by the Board on Feb. 24, 1992, the Retirement Committee, on behalf of the Company, has caused the Plan to be adopted, approved and this document to be executed by the Chief Executive Officer. The Plan shall be effective immediately to the extent necessary to permit deferrals in accordance with the terms and conditions of the Plan to be made as of the Effective Date.

**SHOPKO STORES, INC.**

By Dale P. Flanagan

Its Chief Executive Officer

Date Adopted: March 2, 1992

**EXHIBIT 10.23**

**EXECUTIVE INCENTIVE PROGRAM  
FOR FISCAL YEAR ENDING  
FEBRUARY 23, 1991**

**1. PURPOSE**

To provide various Management Personnel with an opportunity for incentive compensation based on their contribution to ShopKo's, Twin Valu's, and Super Valu Pharmacies:

- a. Total Sales
- b. After-tax Earnings
- c. Return on Capital Employed

**2. OBJECTIVE**

To develop teamwork and intensity within the company to ensure continued growth and profitability.

**3. ELIGIBILITY**

Various General Office Management Personnel are eligible to participate in the Executive Incentive Program. Participants fall into two categories (A and B) depending on their direct impact in regard to financial responsibility, judgement and decision making with respect to company earnings. Group "B" employees' Bonus \$ Norm is 50% of Group "A".

**4. REGULATIONS**

- a. The Executive Incentive Program will be figured and paid on a fiscal year basis, only to participants employed and in good standings at the close of the fiscal year ending February 23, 1991.
- b. Incentive payments may be suspended and eventually not paid to employees who are on probation at fiscal year end.
- c. The maximum Corporate Performance factor that can be achieved, expressed as a percentage of norm, is 1.75.

- d. All budgeted projects that do not occur and all projects that do occur, that are not budgeted, will be reviewed by the President at year end and can be reflected in an adjusted Corporate Sales, R.O.C.E., and After-Tax Earnings Budget for the fiscal year.
- e. Qualified participant employees after the start of a fiscal year may be included on a pro-rata basis by the recommendation of their supervisor and the approval of the President. All pro-ratios will be calculated based upon the number of weeks an employee is in the plan.
- f. Upon death, the participant's spouse or beneficiary will receive a pro-rata share of the E.I.P. payout. Upon permanent disability, the participant will receive a pro-rata share of the E.I.P. payout.
- g. Average Capital Employed will be based upon the thirteen periods from Period 13 of the previous year and Period 1-12 of the current year.
- h. Budgeted Sales After-Tax Earnings and R.O.C.E. will be re-computed at year end using the actual amounts for fixed asset sale gain or loss and Tax Credits (ie. Investment Tax Credit, Jobs Tax Credits, etc.). Since these amounts are difficult to budget, bonus plan participants should not benefit or be penalized for errors in budgeting these amounts.

## 5. MECHANICS

- a. At the end of the fiscal year a specific bonus factor expressed in dollars, hereinafter called NORM, shall be established for each participant. This is done as follows:
  - 1) Base pay, the aggregate base salary earned by the participant in the fiscal year the plan covers, is received from payroll.

Executive Incentive Program for Fiscal  
Year Ending February 23, 1991 Continued

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- 2) Base pay is multiplied by 15% for Group A and 7.5% for Group B participants to arrive at their total Bonus Norm.

CORPORATE GOALS

The Combined Corporate Performance is determined by comparing ShopKo, Twin Valu, and Super Valu Pharmacy Sales, After-Tax Profit and Return on Capital Employed to budget. A participant will receive 100% of their incentive payment based upon combined Corporate performance.

CORPORATE PERFORMANCE

The Corporate Performance will be calculated based on the following factors and their respected weightings:

<u>FACTOR</u>	<u>WEIGHTED VALUE</u>
R.O.C.E.	40%
After Tax Earnings	40%
Sales	20%

These three values obtained would be combined for the single Corporate Performance Factor.

Actual performance between 85% and 120% of budget will be measured for R.O.C.E. and After-Tax Earnings, while actual performance for sales will be measured between 85% and 115% of budget.

After-Tax Earnings performance below 85% of budget will result in no Corporate Performance being paid.

Performance above 120% of budget (After-Tax Earnings, R.O.C.E.) and 115% (Sales) of budget for any goal will not result in any further increases in the Corporate award.

4

**Executive Incentive Program for Fiscal  
Year Ending February 23, 1991 Continued**

**EXAMPLE**

Where Performance against budget is 110% for After-Tax Earnings, 107% for R.O.C.E., and 101% for Sales, the Corporate Performance Factor would be determined as follows:

	<u>WEIGHTED</u>	<u>ACTUAL RESULTS</u>	<u>WEIGHTED VARIANCE *</u>
After - Tax Earnings	40%	1.10	.498
R.O.C.E.	40%	1.07	.460
Sales	20%	1.01	.205
Sum of Three Scores:			----- 1.163

\* See Schedule I for determination of Weighted Variance percentage.

For example an individual with a \$40,000 base would receive a bonus norm of \$6,000 based on a full share at 15%. A payout of 1.163 of norm would equate to \$6,000 X 1.163 or \$6,978.

Please sign the attached page to acknowledge receipt of a copy of the above Executive Incentive Plan for the Fiscal Year ending February 23, 1991, including rules and regulations thereof.

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## SCHEDULE 1

## PERFORMANCE CURVE WEIGHING CHART

## ACTUAL vs. BUDGET

## ADJUSTED/WEIGHTED SCORE

	20%	40%
0.840	0.000	0.000
0.850	0.150	0.300
0.860	0.153	0.307
0.870	0.157	0.313
0.880	0.160	0.320
0.890	0.163	0.327
0.900	0.167	0.333
0.910	0.170	0.340
0.920	0.173	0.347
0.930	0.177	0.353
0.940	0.180	0.360
0.950	0.183	0.367
0.960	0.187	0.373
0.970	0.190	0.380
0.980	0.193	0.387
0.990	0.197	0.393
1.000	0.200	0.400
1.010	0.205	0.408
1.020	0.210	0.416
1.030	0.216	0.424
1.040	0.223	0.433
1.050	0.230	0.442
1.060	0.238	0.450
1.070	0.246	0.460
1.080	0.254	0.471
1.090	0.264	0.484
1.100	0.274	0.498
1.110	0.285	0.512
1.120	0.297	0.527
1.130	0.309	0.543
1.140	0.323	0.561
1.150	0.350	0.579
1.160	0.350	0.598
1.170	0.350	0.620
1.180	0.350	0.642
1.190	0.350	0.666
1.200	0.350	0.700
1.210	0.350	0.700
1.220	0.350	0.700
1.230	0.350	0.700
1.240	0.350	0.700
1.250	0.350	0.700

DD/sj205.31LOTUS

I have received and reviewed a copy of the Fiscal 1991 Executive Incentive Plan. I understand and agree to the corporate objectives and goals.

(Signature)

(Date)

Please return to the Budget Department attention EIP Coordinator.

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**EXHIBIT 13**

# **ShopKo**

**STORES INC.**

**1992 Annual Report**  
**Fiscal year ending February 29, 1992**



A new look in discount retailing backed by a solid history of growth and performance - the ShopKo Difference.



*With 109 stores in  
13 Midwest,  
Mountain and  
Pacific Northwest  
states, ShopKo  
has become a  
leading regional  
discount store  
chain.*

## **Our Mission**

ShopKo operates upscale promotional discount department stores offering a broad selection of quality branded products at competitive prices.

ShopKo focuses on meeting customer expectations for quality and value in pharmacy and optical health care services, fashionable apparel and home-lines, seasonal merchandise, regionally specific needs and everyday basics. ShopKo responds to the changing retail environment by dedicating resources to anticipating

customer needs and then meeting those needs with competitive products and services.

ShopKo's commitment to customer satisfaction includes being in stock and easy to shop, with assisted self-service from a staff of fast, friendly employees.

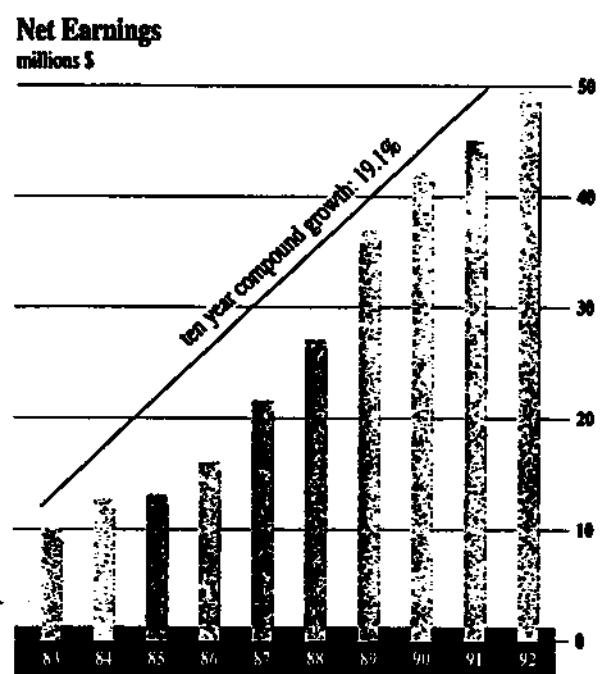
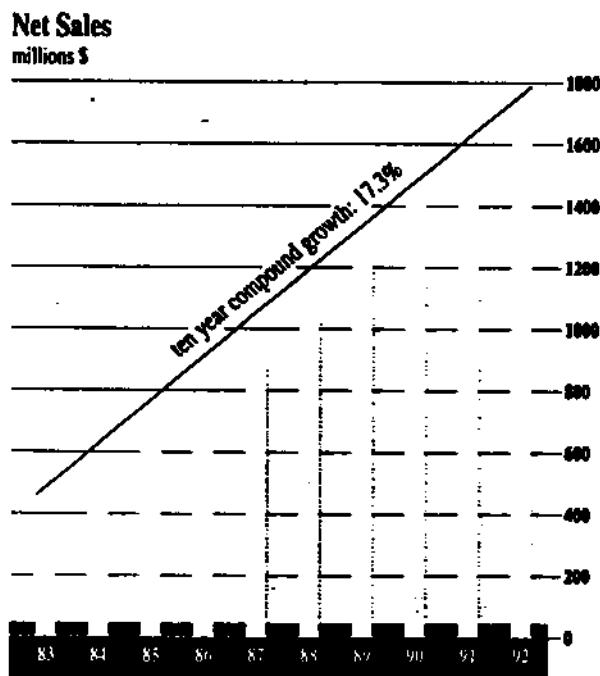
ShopKo is committed to being a valued member of the communities where we conduct business and to providing a competitive return to our shareholders.

## Financial Highlights

*ShopKo Stores, Inc. and Subsidiaries*

	Fiscal years ended		Percent Increase
	February 29, 1992 (53 weeks)	February 23, 1991 (52 weeks)	
<i>(In thousands, except per share data)</i>			
Net Sales	\$ 1,648,427	\$ 1,520,545	8.4 %
Net Earnings	49,589	45,080	10.0 %
Supplemental Net Earnings Per Common Share	1.55	1.41	9.9 %
Dividends Per Common Share*	0.11		N/A
Shareholders' Equity	\$ 319,501	\$ 273,432	
Stores Open at Year End	109	104	

\*First quarterly dividend was declared in the fourth quarter of fiscal 1992.



Note: Fiscal years 1983 thru 1986 are unaudited. Fiscal years 1987 and 1992 are 53 week years.

## To Our Shareholders

We are pleased to welcome you as ShopKo shareholders and to present our first annual report as a public company.

Fiscal 1992 marks ShopKo's thirtieth year of operations and eleventh consecutive year of record sales and earnings. Fiscal 1992 sales were \$1.6 billion, an increase of 8.4 percent over \$1.5 billion a year ago. Net earnings rose 10 percent, to \$49.6 million, or \$1.55 per share from \$45.1 million, or \$1.41 per share, in fiscal 1991, on a pro-forma basis. By virtually every standard, ShopKo has been one of the outstanding growth retailers of the last decade.

In October, 1991, we completed our initial public stock offering, selling 17,250,000 common shares at \$15 each, allowing us to independently pursue growth opportunities in discount retailing. As part of our commitment to maintaining a solid

capital structure, we recently sold \$200 million in 10-year and 30-year senior notes bearing interest at 8.5 percent and 9.25 percent respectively in order to repay outstanding borrowings under a credit agreement. The investment-grade ratings on these notes reflect ShopKo's capital strength, and we are now prepared to return to an aggressive expansion plan, building eight to ten stores per year, beginning in fiscal 1994.

We now have 109 stores in 13 states, and are the eighth largest discount retailer in terms of sales. ShopKo ranks fourth in operating profit dollars and second in operating profit as a percentage of sales. These achievements reflect our ability to meet formidable competition head-on — an ability that is demonstrated every day as we face at least one of the top three national discount retailers in virtually all of our markets.

Dale P. Kramer, President and CEO

We have been able to compete effectively against much larger retailers while improving our bottom line because of our commitment to meeting customer needs and improving productivity.

During the year, we opened a new prototype in Ashwaubenon, Wisconsin, which we call Vision 2000. Based on interviews with thousands of ShopKo customers, the Vision 2000 concept increases our merchandising emphasis in four areas: fashion, home, health and leisure. As we remodel stores and open new ones, customers will find increased services in our pharmacies and optical centers, expanded leisure time offerings and an upscale look in our home and apparel departments.

With Vision 2000, we are building on concepts that have been successful for many years: ShopKo was one of the first discount retailers to offer in-store health care services, with pharmacies and optical centers in nearly every store. Besides providing quality professional health care, these departments offer our customers added convenience, enhancing our image as a one-stop shopping source. Combined with exceptional customer service and attention to seasonal departments, Vision 2000 will serve to further distinguish ShopKo from the competition.

Less visible but no less important, is our constant effort to improve operating efficiencies. We have developed strong in-house capabilities and can efficiently leverage fixed operating and administrative expenses. As a result, selling, general and administrative expenses have dropped from 24 percent of sales to 22 percent in the last five years. One of our corporate goals is to keep driving these costs down through continued investment in systems technology and expansion of our distribution

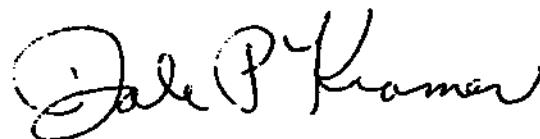
network. In the fall of 1992, ShopKo will complete a \$36 million effort significantly enlarging our three distribution centers.

Technology is the key to achieving productivity improvements in the future. During the next three years, we expect to invest about \$25 million in the evolution of information systems that will improve customer service, store payroll productivity, and inventory management.

Finally, let me pay tribute to the men and women who with their dedicated efforts over the years, are responsible for the successes we have enjoyed and will continue to enjoy in the years ahead. ShopKo's 17,400 employees are meeting the challenges of an increasingly competitive retail environment. Their inventiveness, tenacity and work ethic are among the reasons I am so confident about ShopKo's future.

ShopKo's vision of the future is built on a solid foundation of continuing financial strength, operating efficiency and understanding of our customer needs — a foundation made possible by the dedication of employees and support of our customers. We look forward to sharing reports of our future progress and results with you.

Sincerely,



Dale P. Kramer  
President and Chief Executive Officer

## The ShopKo Difference

An important mix of competitive merchandise, superior customer service and sophisticated business systems enable ShopKo to deliver the kind of value customers demand in today's competitive discount retailing environment. That value makes the ShopKo difference — a difference that keeps us on the leading edge of performance in this industry.

**Positioned for Continuing Success.** ShopKo is well-positioned for future growth within the industry, thanks to some recently undertaken major initiatives. These include two financings, an October, 1991 initial public offering and a \$200 million debt offering in March 1992; the expansion of ShopKo's three distribution centers to be completed by fall, 1992; and significant investment in inventory management systems.

As consumers become better informed and more value-conscious, discount stores are becoming a larger part of the retailing scene. We will continue to grow by integrating new store formats and merchandise selection with our customer lifestyles, building on ShopKo's unique strengths in merchandising systems, customer service and employee development. These competitive advantages make up the ShopKo difference.

## Merchandising

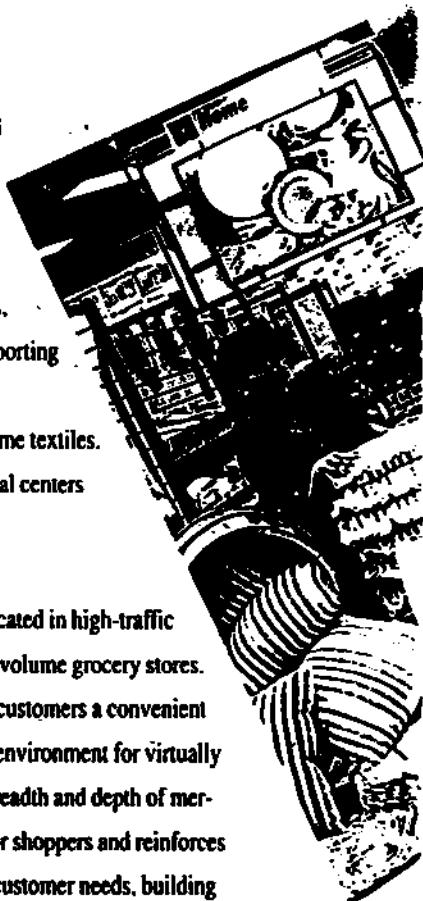
In merchandising, the ShopKo difference stands for a wide selection of high-quality merchandise at value prices. ShopKo stores carry more than 74,000 items including respected brand names that are not available to many competitors. We also have a well-developed ShopKo label program.

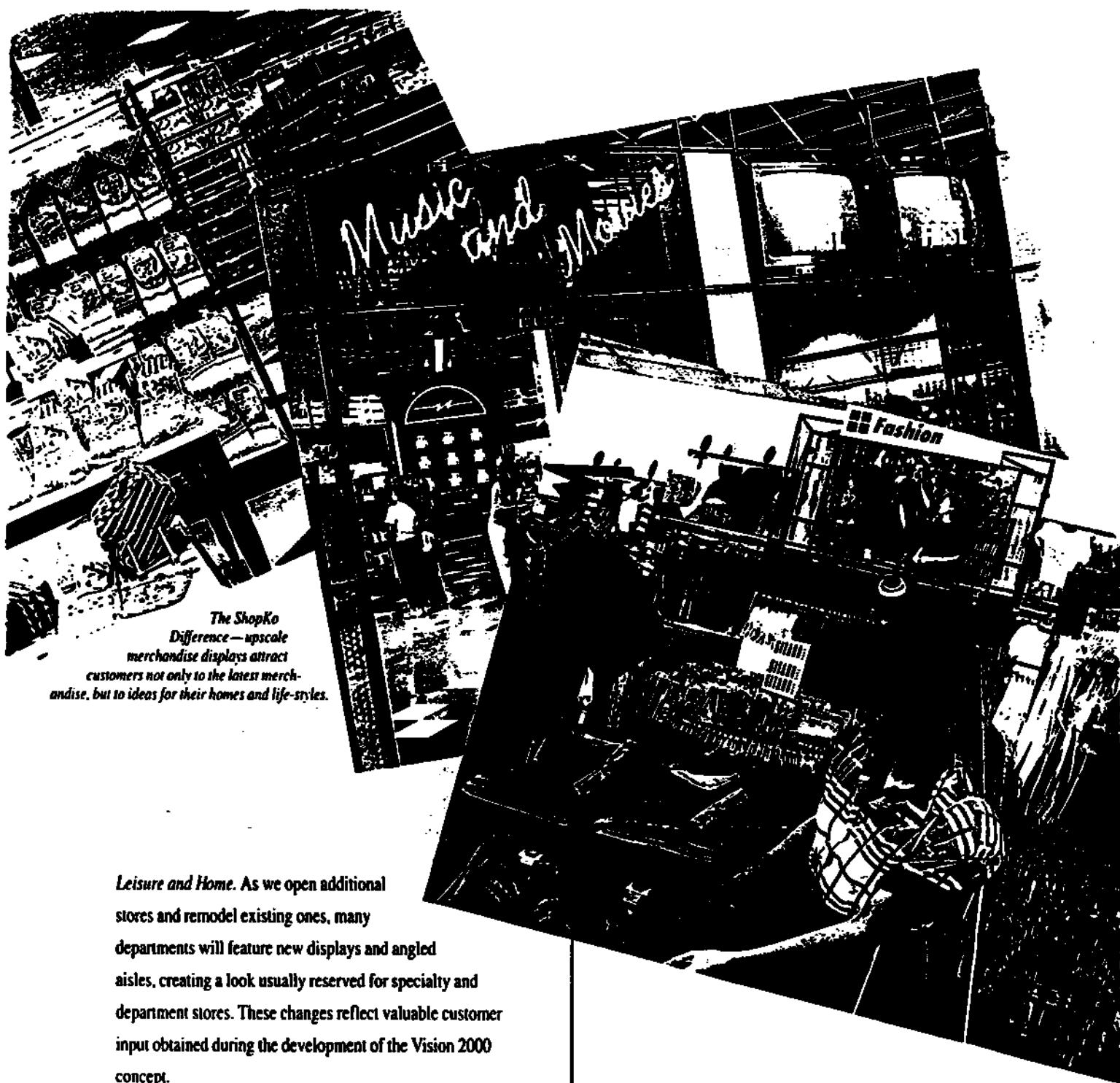
offering customers national-brand quality at retail savings of 15 to 30 percent. Approximately 55 percent of sales come from "hard line" products such as housewares, health and beauty aids, toys and sporting goods. About 30 percent are from "softlines" such as apparel and home textiles. Our in-store pharmacies and optical centers contribute about 15 percent.

ShopKo stores are strategically located in high-traffic shopping centers, often near high-volume grocery stores. This enhances our ability to offer customers a convenient and appealing one-stop shopping environment for virtually all of their everyday needs. The breadth and depth of merchandise ensures a wide variety for shoppers and reinforces ShopKo's reputation for meeting customer needs, building customer loyalty.

**Fashion.** An integral part of the ShopKo difference is our renewed commitment to fashion. This commitment is exemplified by our Fashion Stage displays which highlight trusted name brands and the latest in fashion trends. ShopKo's upscale shopping environment not only provides customers with the basics

they need, but exciting coordinating fashions they want, adding value and versatility to their active life-styles. This is all part of our plan to merchandise products as well as ideas to ShopKo customers.





*The ShopKo Difference*—upscale merchandise displays attract customers not only to the latest merchandise, but to ideas for their homes and life-styles.

**Leisure and Home.** As we open additional stores and remodel existing ones, many departments will feature new displays and angled aisles, creating a look usually reserved for specialty and department stores. These changes reflect valuable customer input obtained during the development of the Vision 2000 concept.

In the leisure area, ShopKo is putting special emphasis on a broader selection of music and movies and name-brand portable electronics. In our expanded home fashion department, we have pioneered integrated merchandise displays that offer customers ideas in decorating to create a coordinated fashion look for the home. The selection of merchandise sold in this area is unparalleled in the discount industry.

**Seasonal Departments and Promotions.** A large part of the ShopKo difference is an emphasis on seasonal departments. These departments feature changing merchandise such as lawn and garden, outdoor living and back-to-school. They also focus on important holiday promotions that deliver key sales volume including Christmas, Easter, Halloween, Mother's Day and Valentine's Day.



ShopKo offers the broadest selection available of seasonal goods, making it a destination store for these items. We dedicate more space to these departments than most competitors, reinforcing the image of the ShopKo store as a dynamic place to shop where customers can find exciting variety within familiar surroundings.

**Advertising and Promotion.** ShopKo's aggressive advertising strategy is designed to appeal to our core of young, middle-class customers who enjoy an innovative shopping experience that delivers the best value available in a very competitive marketplace. ShopKo advertises weekly in newspapers with full-color inserts and eight times a year with direct-mail "pocketbooks" featuring hundreds of specially priced items. These frequent print promotions, reaching more than 3 million customers on average, are supported with targeted radio and television advertising.



### Professional Health Care Services

Perhaps nowhere is the ShopKo difference more visible than in our pharmacies and optical departments, found in virtually all of our stores. ShopKo was one of the first discount retailers to offer in-store professional health care services, and has long been a leader in this area. The professionalism and attention to customer needs found in these departments adds considerable value to the overall shopping experience. Besides distinguishing ShopKo from the competition, these two departments contribute significantly to our profitability.

*The ShopKo Difference—nowhere else in the discount industry can shoppers enjoy trusted health care services in such a professional convenient setting.*



**Pharmacy.** ShopKo opened its first in-store pharmacy in 1971. According to industry statistics, ShopKo pharmacies fill 69 percent more prescriptions per day than the average competing national chain drugstore. To maintain our leadership in this area, we have been progressive in the use of technology. Our pharmacies are equipped with computers that print prescription labels and records and generate drug-interaction warnings. They also provide automated billing and on-line third-party payer approval of prescriptions.

**Optical.** In 1978 we became the first discount retailer to enter the optical business. ShopKo optical centers, each staffed by doctors of optometry, offer eye exams in a professional office setting and feature a broad selection of contact lenses and eye glasses, including designer frames. Most eye glasses are fabricated in ShopKo's own centralized optical lab. The introduction of in-store finishing labs means some customers now receive one-hour or same day optical service.

### Customer Service

At ShopKo, customer service means not only keeping stores well-stocked with quality merchandise at value prices. It also means employees who are prepared to give that extra effort to exceed customer expectations and guarantee customer satisfaction. The best way to describe the ShopKo difference in customer service is "no hassle." ShopKo was one of the first discount retailers to institute a policy that allows customers to return most items for refund without questions. Most ShopKo stores also provide "no-hassle" check-cashing services and free layaway. ShopKo's friendly employees are committed to providing customers with a pleasant, convenient shopping experience.

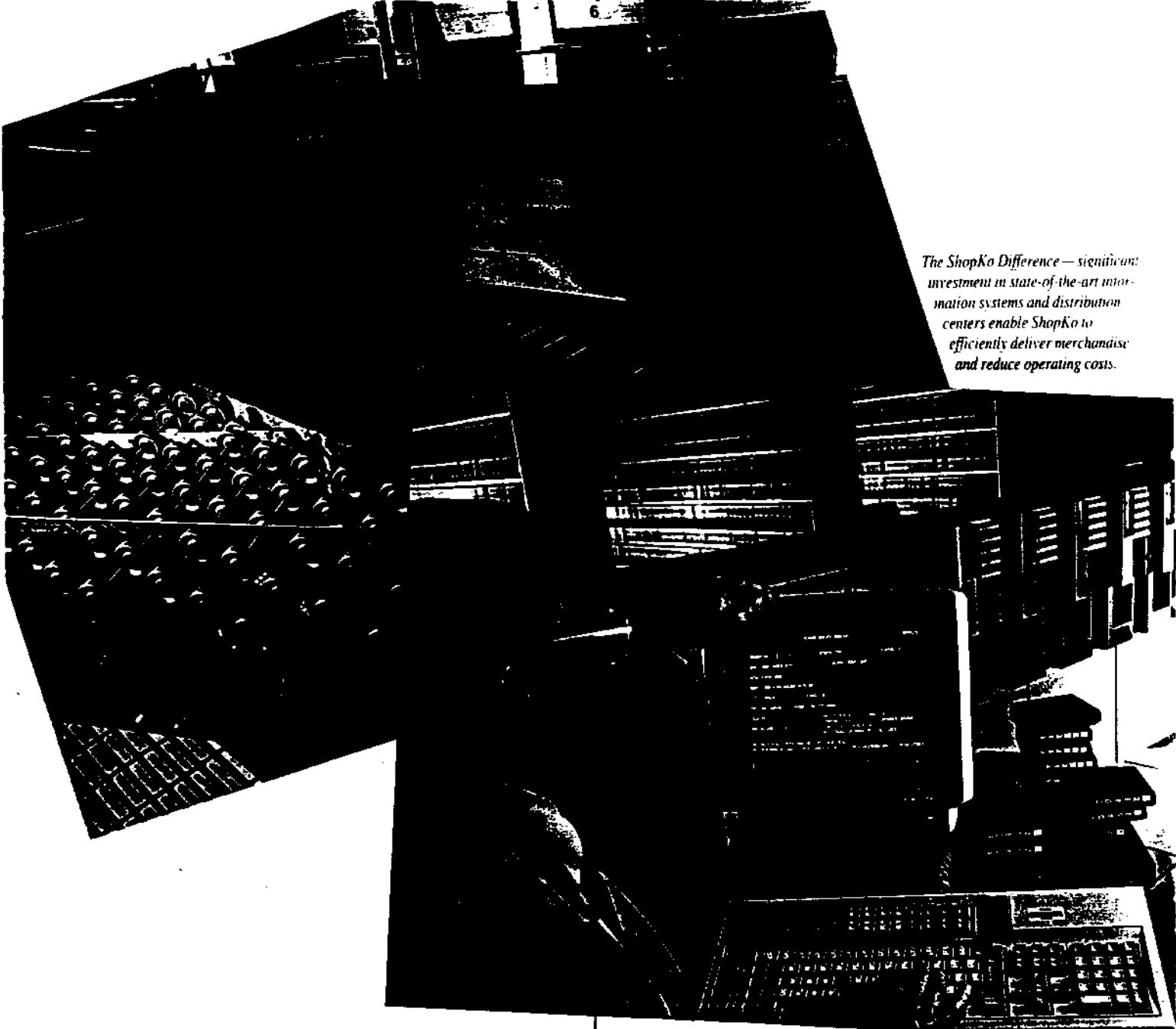
### Systems

We pride ourselves on our ability to identify and quickly implement improvements in purchasing, distribution and management information systems. Managing these systems well has proven to be a vital component in our ability to compete.

**Distribution.** ShopKo's long-standing focus on efficiency has led to a major commitment to improve distribution. Last May we began a \$36 million expansion of our three distribution centers in Wisconsin, Nebraska and Idaho. This expansion will result in a 142 percent increase in total distribution center square

footage — from 216,500 square feet to 525,000 square feet by the fall of 1992.





*The ShopKo Difference — significant investment in state-of-the-art information systems and distribution centers enable ShopKo to efficiently deliver merchandise and reduce operating costs.*

The expansion will enable ShopKo to increase the share of merchandise we purchase directly from manufacturers. It will allow approximately 70 percent of all merchandise to flow through the distribution system versus the current 50 percent, and will speed inventory handling. As a result, we will be able to provide more frequent delivery to store locations, increase inventory turns and keep storage and handling costs low. Store stockroom requirements will be reduced by approximately 25 percent, which will yield more selling space in new and remodeled stores.

*Management Information Systems.* ShopKo was the first discount chain to fully implement point-of-sale scanning, and

we have been an industry leader in price lookup, shelf pricing and on-line credit card authorization. ShopKo's use of technology facilitates rapid adjustments in inventory and pricing in response to changes in consumer demand and competition.

For the past two years, ShopKo has been upgrading its integrated information systems with the latest available computer technology. During the next three years the company expects to spend about \$25 million developing new information systems to further improve customer service, store productivity and

inventory management. Part of this investment is for a satellite communications system that will enhance information exchange between stores, distribution centers and the general office.

As a result of the technological improvements we have made in inventory management and reordering, we have already cut lead times in half with more than 450 vendors. ShopKo is continuing to make progress implementing our Electronic Data Interchange (EDI) system. To date we have more than 250 vendors on-line receiving and responding to our orders electronically, representing more than 30 percent of ShopKo sales. Our goal is to aggressively convert our remaining vendors to EDI, reducing inventory investment while at the same time improving product availability.

## Team ShopKo

Behind the ShopKo difference is a dedicated team of employees distinguished by their flexibility and depth of experience. Team ShopKo is people dealing with people in the same way they expect to be treated when buying a product or service. It's a way of doing business that not only distinguishes the quality of our service, but makes ShopKo the employer of choice for more than 17,000 people.

**Management Commitment.** ShopKo management has fostered a corporate environment that emphasizes bottom-line efficiency and financial stability while maintaining the company's focus on customer service and keeping abreast of retail trends. Management's strong commitment to ShopKo is reflected in

the fact that most of our top executive officers have been with the company 20 years or longer.

**Decentralization.** ShopKo's decentralized management structure is an important strength. While some competitors are moving toward centralization, we are committed to entrepreneurial, decentralized management. This means store managers have a high degree of autonomy and are encouraged to be better and more opportunistic merchandisers. ShopKo store managers are trained not only in store operations but also in buying, inventory control, financial planning and employee relations.

As an added incentive, ShopKo bases part of store managers' compensation on store sales and profitability. Through ongoing training programs and a policy of promoting from within, ShopKo maintains management continuity and a pool of talent ready to manage new stores. ShopKo believes these policies foster employee loyalty — present store managers have been employed by the company for an average of 11 years. Our highly motivated and loyal work force is an essential underpinning of our future growth.

**Putting the Difference to Work.** Putting the ShopKo difference to work relies on anticipating customer needs and exceeding their expectations through innovative merchandising, systems and management. Ultimately, it is this proactive responsiveness to the marketplace — to both our customers and the competition — that positions us for continued growth throughout the 90's and beyond.

*The ShopKo Difference — from our truck drivers to our fashion directors, the ShopKo team pledges to serve the customer better than anyone else.*



## Management Discussion and Analysis

Management Discussion and Analysis includes periods when the Company operated as a wholly owned subsidiary of Super Valu Stores, Inc. ("Super Valu"). 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. 29, 1992 (53 Wks.)	Feb. 23, 1991 (52 Wks.)	Feb. 24, 1990 (52 Wks.)
<b>Revenues:</b>			
Net sales	100.0%	100.0%	100.0%
Licensed department rentals and other income	.7	.8	.8
<b>Costs and expenses:</b>			
Cost of sales	72.7	72.7	72.3
Selling, general and administrative expenses	22.0	21.9	22.1
Interest expense	1.1	1.4	1.4
Earnings before income taxes	4.9	4.8	5.0
Provision for income taxes	1.9	1.8	2.0
<b>Net earnings</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>

#### Fiscal 1992 Compared to Fiscal 1991

Net sales for fiscal 1992 (53 weeks) increased \$127.9 million or 8.4% (6.8% on a 52 week basis), over fiscal 1991 (52 weeks). Increases in net sales reflects new store openings, sales growth at existing stores and inflation. The Company opened seven new stores in fiscal 1992 (including two relocated stores).

Comparable store sales increased 1.7% (on a 52 week basis) for fiscal 1992 compared to 1.4% for fiscal 1991. The primary factors affecting comparable store sales in fiscal 1992 were higher consumer spending resulting from the end of the Gulf War, offset by increased competition from national competitors. 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 remained constant at 27.3% in fiscal 1992 and 1991. Pre-tax LIFO expense was \$5.3 million in fiscal 1992 as compared to \$6.8 million in fiscal 1991. Before LIFO expense, gross margins were 27.6% and 27.8% for fiscal 1992 and 1991, respectively.

Selling, general and administrative expenses increased 0.1% of net sales to 22.0% in fiscal 1992 compared with 21.9% in fiscal 1991. The increase is due primarily to higher payroll costs as a result of the federal minimum wage increase.

Interest expense in fiscal 1992 decreased from the prior year by 0.3% of net sales due to reduced borrowings and lower interest rates.

The effective tax rate for fiscal 1992 was relatively stable at 39.0% as compared to 38.7% for fiscal 1991.

#### Fiscal 1991 Compared to Fiscal 1990

Net sales for fiscal 1991 increased \$100.2 million or 7.1%, over fiscal 1990, due primarily to seven new store openings in fiscal 1991 (including one relocated store), sales growth at existing stores and inflation.

Comparable store sales increased 1.4% for fiscal 1991 compared to 3.0% in fiscal 1990. Management attributes the lower comparable store sales growth in fiscal 1991 primarily to increased competition from national competitors, as well as to weakened economic conditions in the second half of the fiscal year resulting from the Gulf War and lower consumer spending.

Gross margin as a percentage of sales was 27.3% and 27.7% for fiscal 1991 and 1990, respectively. Pre-tax LIFO expense was \$6.8 million for fiscal 1991 as compared to \$2.3 million for fiscal 1990. During fiscal 1990, the Company changed its method of accounting for LIFO inventories for financial statement purposes to more accurately reflect inflation in the cost of inventory. The effect of this change was to increase net earnings by \$3.0 million in fiscal 1990, net of tax. Gross margins, before LIFO expense, were 27.8% in fiscal 1991 as compared to 27.9% in fiscal 1990.

Selling, general and administrative expenses decreased 0.2% of net sales to 21.9% in fiscal 1991 as compared to 22.1% in fiscal 1990. The decrease was due primarily to reductions in advertising costs and headquarters office administration expense as a percentage of net sales.

Interest expense as a percentage of sales remained constant at 1.4% in fiscal 1991 and 1990.

The effective tax rate for fiscal 1991 decreased to 38.7% as compared to 39.5% for fiscal 1990. The decrease is primarily attributable to a reduction in state income tax rates.

#### **Return on Investment percentage**

					22
					20
					18
					16
					14
					12
					10
					8
					6
					4
					2
					0
88	89	90	91	92	

*Note: Return on Investment equals net earnings before interest and income taxes divided by the average of total assets less non-interest bearing current liabilities.*

#### **Liquidity and Capital Resources**

The Company relies primarily on cash generated from its operations, with its remaining funding requirements being met from short-term and long-term borrowings. Cash provided from net earnings before depreciation and amortization was \$90.0 million, \$84.2 million and \$77.8 million in fiscal 1992, 1991 and

1990, 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 \$78.8 million at the end of fiscal 1992 from \$69.5 million at the end of fiscal 1991 and \$59.2 million at the end of fiscal 1990.

Prior to the public offering of the Company's common stock in October 1991, the Company's cash needs in excess of cash flow provided by operations were met principally by Super Valu and any excess cash was distributed to Super Valu. Since the initial public offering, the Company relies primarily on cash generated from its operations and the Super Valu Credit Agreement to meet its liquidity needs. Borrowings from Super Valu decreased approximately \$23 million in fiscal 1992, principally from increased net earnings and reduced purchases of property and equipment, compared to a decrease of \$19.4 million in fiscal 1991. Average borrowings from Super Valu during fiscal 1992 and 1991 were \$182.1 and \$221.2 million and ranged from a high of \$230.7 and \$280.0 million to a low of \$80.8 and \$102.0 million, respectively.

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 \$197.5 million were used to repay the outstanding borrowings under the Company's Credit Agreement with Super Valu of \$181.2 million and the remainder will be used for working capital and other general corporate purposes. The issuance of these notes also reduced Super Valu's commitment under the credit agreement from \$225 million to \$25 million.

The Company is in the process of arranging a revolving line of credit with banks to replace the Super Valu Credit Agreement. This line will be available to fund working capital needs and general corporate purposes. Pursuant to current negotiations, the Company anticipates that such revolving line of credit will be in an amount of approximately \$100 million, will be unsecured and will mature in approximately three years. Such borrowings are anticipated to be at market rates.

### **Capital Expenditures**

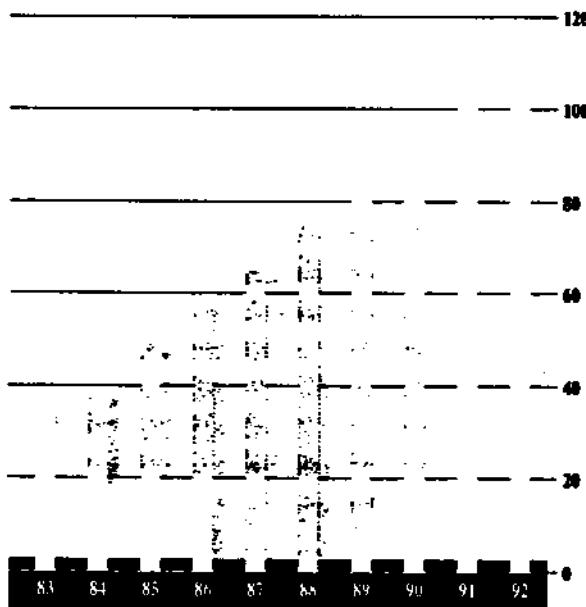
The Company spent \$53.4 million on capital expenditures in fiscal 1992, compared to \$59.1 million in fiscal 1991 and \$80.1 million in fiscal 1990. The decrease in capital expenditures in fiscal 1992 and fiscal 1991 resulted principally from the opening of a lesser number of new stores. In fiscal 1992, this decrease was offset somewhat by expenditures on the Company's \$36 million distribution center expansion project, which is anticipated to be completed in the fall of 1992. The following table sets forth the components of the Company's actual capital expenditures for fiscal 1992, 1991 and 1990 (in millions):

	Fiscal Year		
	1992	1991	1990
New stores	\$ 25.4	\$ 43.5	\$ 68.5
Remodeling and refixturing	8.0	3.7	4.9
Distribution centers	12.8	.3	1.7
Management information and point-of sale equipment and systems	6.6	8.4	3.9
Other	.6	3.2	1.1
Total	<b>\$ 53.4</b>	<b>\$ 59.1</b>	<b>\$ 80.1</b>

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

### **Stores Open at Year End**

number of stores



The Company opened seven new stores in fiscal 1992 (including two relocated stores), and presently plans to open three new stores in fiscal 1993 (including one relocated store) and eight new stores in fiscal 1994. The Company's fiscal 1993 planned capital expenditures will increase substantially, as compared to the prior year, due to fiscal 1994 planned new store openings and fiscal 1993 planned increases in store remodeling and refixturing. The Company's plans with respect to store openings may be reviewed and revised from time to time in light of changing conditions.

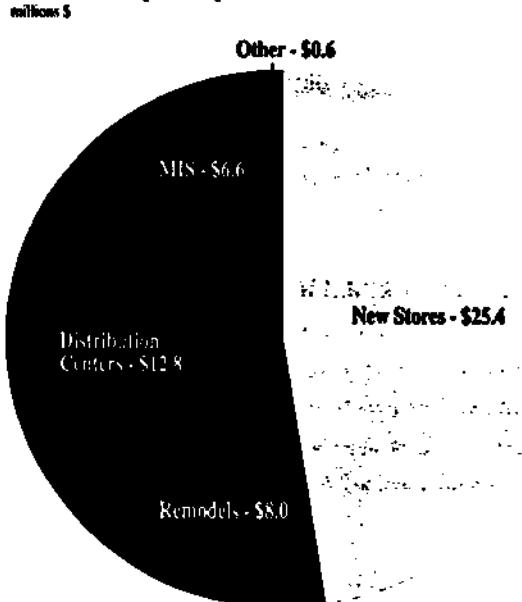
### **Recent Pronouncements**

The Financial Accounting Standards Board has issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and Statement No. 109 "Accounting for Income Taxes." Both statements must be adopted no later than fiscal 1994. The Company is in the process of evaluating the impact of the pronouncements on its financial position. Although the impact has not been determined, management believes the impact will not be material.

### **Inflation**

Inflation has had, and is expected to have, only a minor effect on the results of operations of the Company and its internal and external sources of liquidity.

### **Fiscal 1992 Capital Expenditures**



## Five Year Financial Summary

*ShopKo Stores, Inc. and Subsidiaries*

**ShopKo**

	Fiscal years ended				
	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)	February 24, 1990 (52 Weeks)	February 25, 1989 (52 Weeks)	February 27, 1988 (52 Weeks)
<b>Summary of Operations (Millions)</b>					
Net sales	\$ 1,648	\$ 1,521	\$ 1,420	\$ 1,248	\$ 1,051
Licensed department rentals and other income	11	12	11	10	9
Gross margin	450	415	394	358	296
Selling, general and administrative expenses	363	333	315	291	244
Interest expense	17	21	20	16	13
Earnings before income taxes	81	73	70	61	48
Net earnings	50	45	43(1)	37	27
<b>Per-Share Data (Dollars)</b>					
Supplemental net earnings per common share (2)	\$ 1.55	\$ 1.41	\$ 1.33(1)	\$ 1.15	\$ 0.85
Cash dividends declared per common share (3)	0.11				
<b>Financial Data (Millions)</b>					
Working capital	\$ 79	\$ 70	\$ 59	\$ 57	\$ 37
Property and equipment - net	445	432	412	369	313
Total assets	706	692	648	576	485
Total debt (4)	193	215	237	231	193
Shareholders' equity	320	273	228	186	149
Capital expenditures	53	59	80	91	88
Depreciation and amortization	40	39	35	31	25
<b>Financial Ratios</b>					
Current ratio	1.4	1.4	1.3	1.4	1.3
Return on beginning assets	7.2%	7.0%	7.4%	7.6%	6.9%
Return on beginning shareholders' equity	18.1%	19.7%	22.9%	24.8%	22.3%
Total debt as % of total capitalization (5)	36.7%	42.8%	50.0%	53.9%	54.9%
<b>Other Year End Data</b>					
Stores open at year end	109	104	98	87	75
Average store size - square feet	87,400	87,200	87,000	85,900	84,700

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

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

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

(4) Total debt equals current portion of long-term obligations, long-term obligations and payable to related party.

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

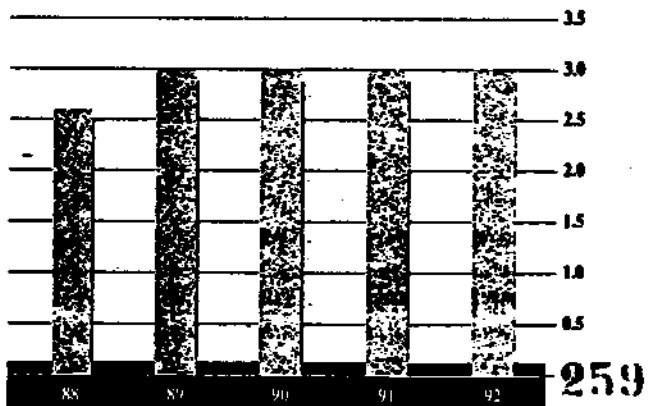
# Consolidated Statements of Earnings

*ShopKo Stores, Inc. and Subsidiaries*

<i>(in thousands, except per share data)</i>	Fiscal years ended		
	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)	February 24, 1990 (52 Weeks)
<b>Revenues:</b>			
Net sales	\$ 1,648,427	\$ 1,520,545	\$ 1,420,300
Licensed department rentals and other income	11,627	12,283	11,381
	1,660,054	1,532,828	1,431,681
<b>Costs and expenses:</b>			
Cost of sales	1,198,726	1,105,119	1,026,315
Selling, general and administrative expenses	362,870	332,833	314,964
Interest expense	17,212	21,337	20,084
	1,578,808	1,459,289	1,361,363
<b>Earnings before income taxes</b>	<b>81,246</b>	<b>73,539</b>	<b>70,318</b>
Provision for income taxes	31,657	28,459	27,756
<b>Net earnings</b>	<b>\$ 49,589</b>	<b>\$ 45,080</b>	<b>\$ 42,562</b>
Net earnings per common share	\$ 2.35		
Weighted average number of common shares outstanding	21,120		
Supplemental net earnings per common share	\$ 1.55	\$ 1.41	\$ 1.33
Supplemental number of common shares outstanding	32,000	32,000	32,000

*See notes to consolidated financial statements.*

**Earnings as a Percent of Sales  
percentage**



## Consolidated Balance Sheets

*ShopKo Stores, Inc. and Subsidiaries*

<i>(In thousands)</i>	February 29, 1992	February 23, 1991
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 2,081	\$ 2,006
Receivables, less allowance for losses of \$2,378 and \$1,410 respectively	17,287	16,996
Merchandise inventory	233,211	235,227
Other current assets	7,773	5,861
Total current assets	260,352	260,090
Property and equipment - net	445,223	432,006
<b>Total assets</b>	<b>\$ 705,575</b>	<b>\$ 692,096</b>

*ShopKo*

<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable - trade	\$ 116,525	\$ 130,384
Accrued compensation and related taxes	16,100	13,431
Accrued other liabilities	34,369	25,769
Accrued income and other taxes	13,804	19,519
Current portion of long-term obligations	786	1,440
Total current liabilities	181,584	190,543
Payable to related party	181,167	204,034
Long-term obligations	10,631	10,018
Deferred income taxes	12,692	14,069
<b>Shareholders' equity:</b>		
Preferred stock; none outstanding		
Common stock; Shares outstanding, 32,000 and 14,750	320	1
Additional paid-in capital	242,793	2,282
Retained earnings	76,388	271,149
Total shareholders' equity	319,501	273,432
<b>Total liabilities and shareholders' equity</b>	<b>\$ 705,575</b>	<b>\$ 692,096</b>

*See notes to consolidated financial statements.*

## Consolidated Statements of Cash Flows

*ShopKo Stores, Inc. and Subsidiaries*

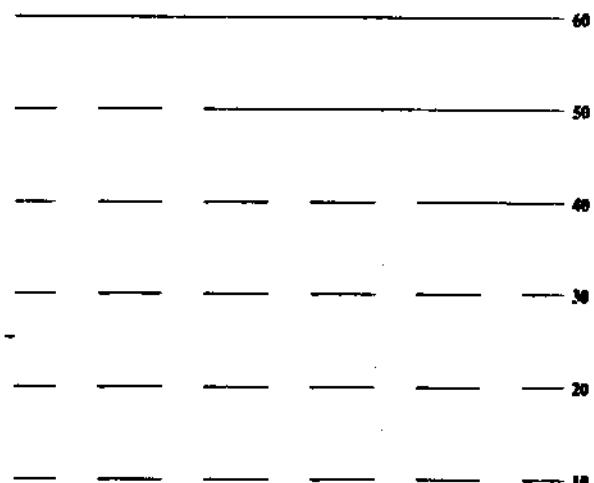
ShopKo	(in thousands)	Fiscal years ended		
		February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)	February 24, 1990 (52 Weeks)
<b>Cash flows from operating activities:</b>				
Net earnings	\$ 49,589	\$ 45,080	\$ 42,562	
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	40,372	39,134	35,238	
Provision for losses on receivables	139	215	32	
Gain on the sale of property and equipment	(120)	(783)	(910)	
Deferred income taxes	(3,899)	829	7,046	
Change in assets and liabilities:				
Receivables	(430)	(2,461)	(1,588)	
Merchandise inventories	2,016	(19,600)	(27,878)	
Other current assets	(1,031)	(1,894)	(3,537)	
Accounts payable	(13,859)	13,530	16,507	
Accrued liabilities	3,675	5,581	3,757	
<b>Net cash provided by operating activities</b>	<b>76,452</b>	<b>79,631</b>	<b>71,229</b>	
<b>Cash flows from investing activities:</b>				
Payments for property and equipment	(53,391)	(59,100)	(80,117)	
Proceeds from the sale of property and equipment	1,327	1,341	2,716	
<b>Net cash (used in) investing activities</b>	<b>(52,064)</b>	<b>(57,759)</b>	<b>(77,401)</b>	
<b>Cash flows from financing activities:</b>				
Increase (decrease) in payable to related party	(22,867)	(19,417)	8,083	
Net proceeds from sale of common stock	240,830			
Dividend payment	(240,830)			
Reduction in capital lease obligations	(1,446)	(2,263)	(1,775)	
<b>Net cash provided by (used in) financing activities</b>	<b>(24,313)</b>	<b>(21,680)</b>	<b>6,308</b>	
<b>Net increase in cash</b>	<b>75</b>	<b>192</b>	<b>136</b>	
<b>Cash at beginning of year</b>	<b>2,006</b>	<b>1,814</b>	<b>1,678</b>	
<b>Cash at end of year</b>	<b>\$ 2,081</b>	<b>\$ 2,006</b>	<b>\$ 1,814</b>	
<b>Supplemental cash flow information:</b>				
<b>Noncash investing and financial activities:</b>				
Capital lease obligations incurred	\$ 1,871	\$ 333	\$ —	
<b>Cash paid during the period for:</b>				
Interest	\$ 18,339	\$ 22,331	\$ 21,257	
Income taxes paid to parent	\$ 42,430	\$ 27,237	\$ 19,295	

*See notes to consolidated financial statements.*

**Consolidated Statements of Shareholders' Equity**      *ShopKo Stores, Inc. and Subsidiaries*

<i>(In thousands, except per share data)</i>	Common Stock		Additional Paid-in Capital	Retained Earnings
	Shares	Amount		
Balances at February 25, 1989	14,750	\$ 1	\$ 2,282	\$183,507
Net earnings				42,562
Balances at February 24, 1990	14,750	1	2,282	226,069
Net earnings				45,080
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 - \$.11 per share				(3,520)
Sale of common stock	17,250	172	240,658	
<b>Balances at February 29, 1992</b>	<b>32,000</b>	<b>\$ 320</b>	<b>\$242,793</b>	<b>\$ 76,388</b>

Total Debt as a Percent of Total Capitalization  
percentage



*See notes to consolidated financial statements.*

85 86 87 88 89 90 91 92 262

## Notes to Consolidated Financial Statements

### 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 inter-company accounts and transactions have been eliminated. The Company, which is a Minnesota corporation and prior to completion of the offering of Common Stock in October 1991 was a wholly owned subsidiary of Supermarket Operators of America, Inc. ("SOA") which, in turn, is wholly owned by Super Valu Stores, Inc. ("Super Valu"), 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. In connection with the offering, the Company declared a dividend to SOA in the form of a demand note which was paid with the \$240.8 million of proceeds from the offering.

For the periods presented, certain general, administrative and other expenses reflected in the consolidated financial statements include allocations of certain corporate expenses from Super Valu which took into consideration personnel, space, estimates of time spent to provide services or other appropriate bases. These allocations included general and administrative allocations for general management, treasury, tax, financial audit, financial reporting, benefits administration, insurance, legal, communications, public affairs, and other miscellaneous services. See Note F.

Management believes the foregoing 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.

##### 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 \$33.5 million at February 29, 1992, \$28.2 million at February 23, 1991, and \$21.4 million at February 24, 1990.

##### Other Current Assets:

Other current assets at February 29, 1992 and February 23, 1991 include \$3.9 million which was funded to a Voluntary Employees' Beneficiary Association (VEBA) trust for estimated eligible benefits under the Company's health care plans. These amounts are to be paid in fiscal years 1993 and 1992, respectively.

##### 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 individually 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 are amortized over the related lease term using the straight-line method. Interest on property under construction of \$1.1, \$1.0 and \$1.2 million was capitalized in fiscal years 1992, 1991, and 1990, respectively.

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

	Feb. 29, 1992	Feb. 23, 1991
<b>Property and equipment at cost:</b>		
Land	\$ 89,196	\$ 86,230
Buildings	309,382	280,908
Property under construction	18,648	16,426
Leasehold improvements	40,903	41,178
Equipment	191,907	176,844
Property under capital leases	14,975	20,617
	665,011	622,203
<b>Less accumulated depreciation and amortization:</b>		
Property and equipment	212,242	177,020
Property under capital leases	7,546	13,177
<b>Net property and equipment</b>	<b>\$445,223</b>	<b>\$432,006</b>

**Accounts Payable:**

Accounts payable include \$4.5 and \$5.6 million at February 29, 1992 and February 23, 1991, 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:**

The Company's results were included in Super Valu'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 Super Valu on behalf of its subsidiaries, a portion of which were allocated to the Company as a charge through the payable to related party account. 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 effect, the income tax provision was computed on a separate return basis. Subsequent to October 16, 1991, the Company will file a separate U.S. federal income tax return.

The financial statements reflect the application of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes."

The Financial Accounting Standards Board has recently issued Statement No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96. Statement No. 109 must be adopted no later than fiscal 1994. The Company is in the process of evaluating the impact of the pronouncement on its financial position. Although the impact has not been determined, management believes the impact will not be material.

**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. Long-Term Obligations and Leases**

(In thousands)	Feb. 29, 1992	Feb. 23, 1991
Industrial Revenue Bond,		
6.4%, due May 1, 2008	\$ 1,000	\$ 1,000
Capital lease obligations	10,417	10,458
	11,417	11,458
Less current portion	786	1,440
Long-term obligations	\$10,631	\$10,018

The Company leases certain general merchandise stores under capital leases. Many of these leases include renewal options, and occasionally, but to a much lesser extent, include options to purchase.

Amortization of property under capital leases was \$1.4, \$1.8 and \$1.8 million in fiscal years 1992, 1991, and 1990, respectively. Minimum future obligations under capital leases in effect at February 29, 1992 are as follows (in thousands):

Year	Lease Obligations	ShopNo
1993	\$ 1,843	
1994	1,818	
1995	1,793	
1996-	1,573	
1997	1,544	
Later	10,266	
Total minimum future obligations	18,837	
Less interest	8,420	
Present value of minimum future obligations	\$10,417	

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.3% to 13.4%, with a weighted average of 10.0%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was \$1.1, \$1.2 and \$1.4 million in 1992, 1991, and 1990, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was \$.7, \$.9 and \$1.0 million in 1992, 1991, and 1990, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for land and buildings. Minimum future obligations for the five year period subsequent to February 29, 1992 under operating leases in effect at year end are as follows (in thousands):

Year	Lease Obligations
1993	\$ 2,983
1994	2,678
1995	2,698
1996	2,719
1997	2,735

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was \$3.1, \$2.9, and \$2.5 million in 1992, 1991, and 1990, respectively.

### C. Income Taxes

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

	1992	1991	1990
Current			
Federal	\$29,497	\$22,346	\$17,417
State	6,207	5,366	3,492
General business and other tax credits	(148)	(82)	(199)
Taxes currently payable	35,556	27,630	20,710
Deferred	(3,899)	829	7,046
Total provision	\$31,657	\$28,459	\$27,756

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

	1992	1991	1990
Statutory income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefits	4.5	4.8	5.8
Other	5	(0.1)	(0.3)
Effective income tax rate	39.0%	38.7%	39.5%

Provision is made for deferred income taxes and future income tax benefits applicable to temporary differences between financial and tax reporting. The sources of these differences and the effects of each were as follows (in thousands):

	1992	1991	1990
Excess tax over book depreciation	\$ (540)	\$1,073	\$5,042
LIFO inventory valuation	(539)	(478)	2,977
Bad debt and return reserves	(1,801)	(17)	(240)
Other	(1,819)	251	(733)
	\$ (3,899)	\$ 829	\$7,046

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.

### D. 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 32,000,000 and 14,750,000 issued and outstanding at February 29, 1992 and February 23, 1991, respectively. 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.

In fiscal 1992, the Company adopted a Stock Option Plan in which stock options were granted at \$15 per share, the initial offering price, to various officers, directors and other employees of the Company. 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 (in thousands):

	Shares
Granted	1,557
Canceled and forfeited	(18)
Outstanding, February 29, 1992	1,539
Exercisable at February 29, 1992	0

### E. Employee Benefits

Substantially all employees of the Company are covered by a non-contributory defined contribution profit sharing plan. Contributions are determined at the discretion of the board of directors, and were \$8.3, \$7.0, and \$6.3 million for fiscal years 1992, 1991, and 1990, respectively.

The Company has also entered into 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 addition, the Company provides certain health care and limited life insurance benefits for retired employees. The Company pays a portion of the premium for these benefits for employees who retire prior to age 65. Once employees reach age 65, they pay the entire health care premium and are no longer eligible for life insurance. Employees may become eligible for these benefits if they have 10 years of service and retire (while working for the Company) at age 55 or later. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. Such costs were not significant for fiscal years 1992, 1991 and 1990.

The Financial Accounting Standards Board has issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Statement No. 106 must be adopted no later than fiscal 1994. The Company is in the process of evaluating the impact of the pronouncement on its financial position. Although the impact has not been determined, management believes the impact will not be material.

#### F. Related Party Transactions

Super Valu provided the capital resources, through October 16, 1991, required to obtain certain assets reflected in the Company's consolidated financial statements. The corporate charge for the period through completion of the initial public offering for capital financing provided by Super Valu is reported as interest expense. This corporate charge approximated Super Valu's market rate of interest. The portion of the capital provided by Super Valu is reflected as a long-term payable to related party in the accompanying financial statements.

In connection with the initial public offering, the Company and Super Valu replaced the informal financing arrangement described above with a credit agreement. Under this agreement Super Valu has agreed to make advances to the Company on a revolving basis in an aggregate amount not to exceed \$225 million through February 26, 1993, which has subsequently been reduced to \$25 million as described in Note G. The revolving loan bears interest at the reference rate announced by First Bank Association from time to time (6.5% at February 29, 1992). The amount borrowed under the credit agreement is also reflected as a long-term payable to related party in the accompanying financial statements.

The credit agreement contains restrictive covenants which prohibit the Company from incurring any debt other than borrowings from Super Valu, debt to refinance such borrowings and certain letters of credit, require the maintenance of a minimum net worth

and restrict transactions involving liens, asset sales, mergers, leases and sale leasebacks.

At February 29, 1992, the borrowings under the credit agreement were classified as long-term, reflecting the Company's intent and ability to refinance these borrowings on a long-term basis. On March 12, 1992, the Company replaced these borrowings with long-term senior unsecured notes. See Note G.

General administrative and other expenses were allocated to the Company from Super Valu. In such cases, allocations were made using procedures deemed appropriate to the nature of the expenses involved. The Company also allocated general administrative and other expenses to two wholly owned subsidiaries of Super Valu. These allocations included general and administrative allocations for general management, tax, financial reporting, real estate management, accounting, purchasing, and other miscellaneous services.

Selling, general and administrative expenses include the following allocations:

	1992	1991	1990
From Super Valu to ShopKo	\$3,259	\$3,327	\$3,329
From ShopKo to wholly owned subsidiaries of Super Valu	\$2,036	\$2,243	\$1,920

Purchases of inventory from Super Valu were \$27.5, \$29.9, and \$34.7 million for the fiscal years 1992, 1991, and 1990, respectively, and are included in cost of sales. Super Valu is guarantor of the industrial revenue bond and certain leases and letters of credit with respect to which ShopKo is obligor.

As a result of the initial public offering, the Company and Super Valu entered into certain other agreements, including but not limited to the following:

A master corporate services agreement under which Super Valu will provide the Company with a limited number of support services through the fiscal year ending February 27, 1993;

A pharmacy management agreement, under which the Company will continue to provide substantially the same services through the fiscal year ending February 27, 1993 to a subsidiary of Super Valu that operated pharmacies in food stores which are either owned or supplied by Super Valu;

A Twin Valu management and supply agreement under which the Company will continue to manage the operations and

provide substantially the same services to two Twin Valu stores through the fiscal year ending February 27, 1993;

A food products supply agreement under which the Company has agreed to purchase from Super Valu, through October 16, 1999, 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 Super Valu;

An indemnification agreement under which the Company and Super Valu will each indemnify the other party and that party's directors, officers, employees, and agents against certain liabilities arising from or based upon the operation of their own respective businesses prior to and following the offering. The agreement also contains agreements by the parties intended to clarify responsibilities and procedures for the filing of income tax returns, payment of taxes and resolution of disputes regarding taxes following the offering;

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

**ShopKo**

## G. Subsequent Events

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 applicable to the notes and the notes are not redeemable prior to maturity.

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 net proceeds of \$197.5 million were used to repay the outstanding borrowings under the Company's credit agreement with Super Valu of \$181.2 million and the remainder will be used for working capital and other general corporate purposes. The issuance of these notes also reduced Super Valu's commitment under the credit agreement from \$225 million to \$25 million.

## H. Unaudited Quarterly Financial Information

Unaudited quarterly financial information is as follows:

(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12wks)	Fourth (13 wks)	Year (53 wks)
Net sales	\$455,806	\$340,132	\$397,383	\$455,106	\$1,648,427
Gross margins	126,393	86,937	110,656	125,715	449,701
Net earnings	10,394	3,723	14,334	21,138	49,589
Net earnings per common share				0.66	2.35
Weighted average shares				32,000	21,120
Supplemental net earnings per common share	0.32	0.12	0.45	0.66	1.55
Supplemental number of common shares	32,000	32,000	32,000	32,000	32,000
Dividends declared per common share				0.11	0.11
Price range per common share*		15 1/8-11 3/4		17 1/4-12	17 1/4-11 3/4

### Fiscal Year (53 Weeks) Ended February 29, 1992

	Second (12 wks)	Third (12wks)	Fourth (13 wks)	Year (53 wks)
Net sales	\$340,132	\$397,383	\$455,106	\$1,648,427
Gross margins	86,937	110,656	125,715	449,701
Net earnings	3,723	14,334	21,138	49,589
Net earnings per common share			0.66	2.35
Weighted average shares			32,000	21,120
Supplemental net earnings per common share	0.12	0.45	0.66	1.55
Supplemental number of common shares	32,000	32,000	32,000	32,000
Dividends declared per common share			0.11	0.11
Price range per common share*	15 1/8-11 3/4		17 1/4-12	17 1/4-11 3/4

### Fiscal Year (52 Weeks) Ended February 23, 1991

	Second (12 wks)	Third (12wks)	Fourth (12 wks)	Year (52 wks)
Net sales	\$325,689	\$386,262	\$393,138	\$1,520,545
Gross margins	80,785	105,454	117,074	415,426
Net earnings	2,305	14,199	20,738	45,080
Supplemental net earnings per common share	0.07	0.44	0.65	1.41
Supplemental number of common shares	32,000	32,000	32,000	32,000

\*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

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

We have audited the consolidated balance sheets of ShopKo Stores, Inc. and its Subsidiaries as of February 29, 1992 and February 23, 1991 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years (53 weeks, 52 weeks and 52 weeks) in the period ended February 29, 1992. 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 29, 1992 and February 23, 1991, and the results of their operations and their cash flows for each of the three years (53 weeks, 52 weeks and 52 weeks) in the period ended February 29, 1992 in conformity with generally accepted accounting principles.

*Deloitte & Touche*

DELOITTE & TOUCHE  
Milwaukee, Wisconsin  
April 3, 1992

*ShopKo*

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## Board of Directors

**Michael W. Wright** Chairman of the Board.  
Chairman, President and Chief Executive Officer of Super Valu.

**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.

**Jeffrey C. Girard**  
Senior Vice President and Chief Financial Officer of Super Valu.

**Dale P. Kramer**  
President and Chief Executive Officer of ShopKo.

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

## Executive Officers

**Dale P. Kramer** President, Chief Executive Officer  
and Director.

**Thomas D. Hendra** Senior Vice President, Merchandising.

**Mark R. Kennedy** Senior Vice President, Chief Financial  
Officer and Treasurer.

**Eugene E. Bankers** Vice President, Communications and  
Investor Relations.

**Lawrence J. Clark** Vice President, Finance and Distribution.

**Steven T. Harig** Vice President, Inventory and Replenishment.

**John W. Hermsen** Vice President, Store Operations.

**David A. Liebergen** Vice President, Human Resources,  
Government Affairs and Loss Prevention; Secretary.

**Clayton L. Schaefer** Vice President, Apparel and Homelines.

**John R. Schwartje** Vice President, Professional Services.

## 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 23, 1992, ShopKo's common shares were held by 1,734 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.

## 109 Store Locations

**California (1)**  
Redding

**Idaho (8)**  
Boise (2)  
Chubbuck  
Coeur D'Alene  
Idaho Falls  
Lewiston  
Nampa  
Twin Falls

**Iowa (3)**  
Mason City  
Sioux City  
Spencer

**Michigan (3)**  
Escanaba  
Kingsford  
Marquette

### Minnesota (12)

Albert Lea  
Austin  
Fairmont  
Hutchinson  
Mankato  
Marshall  
Rochester (2)  
St. Cloud (2)  
Winona  
Worthington

**Montana (3)**  
Billings  
Great Falls  
Missoula

**Nebraska (10)**  
Bellevue  
Grand Island  
Lincoln (2)  
Norfolk  
North Platte  
Omaha (4)

**Nevada (3)**  
Reno (2)  
Sparks

### 1992 Annual Meeting

The annual meeting of shareholders will be held Thursday, June 25, 1992, at 10 a.m. at the Ramada Inn, 2750 Ramada Way, Green Bay, Wisconsin.

### Investor Relations

Our Annual Report, Form 10-K, Quarterly Reports, Prospectuses and News Releases are available to our investors, security analysts and other members of the investment community. These reports are provided, without charge, upon request to our Corporate Office.

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

### Oregon (3)

Bend  
Eugene (2)

### South Dakota (6)

Aberdeen  
Mitchell  
Rapid City  
Sioux Falls (2)  
Watertown

### Utah (15)

Brigham City  
Layton  
Logan  
Ogden (2)  
Orem  
Provo  
Salt Lake City (6)  
Spanish Fork  
West Bountiful

### Washington (6)

Kennewick  
Spokane (2)  
Walla Walla  
Yakima (2)

### Wisconsin (36)

Appleton  
Beaver Dam  
Beloit  
Chippewa Falls  
Eau Claire  
Fond du Lac  
Fort Atkinson  
Grafton  
Green Bay (4)  
Janesville  
Kenosha  
Kimberly  
La Crosse (2)  
Madison (4)  
Manitowoc  
Marinette  
Marshfield  
Menasha  
Neenah  
Onalaska  
Oshkosh  
Racine  
Stevens Point (2)  
Watertown  
Wausau (2)  
West Bend 270  
Wisconsin Rapids



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

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**EXHIBIT 24.1**

**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in the Registration Statement No. 33-43952 of ShopKo Stores, Inc. and Subsidiaries on Form S-8 of our reports dated April 3, 1992, appearing in and incorporated by reference in the Annual Report on Form 10-K of ShopKo Stores, Inc. and Subsidiaries for the year (53 weeks) ended February 29, 1992.

*Deloitte & Touche*

DELOITTE & TOUCHE  
Milwaukee, Wisconsin  
May 26, 1992