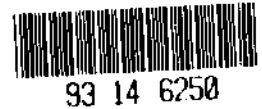


SECURITIES AND EXCHANGE COMMISSION



Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year (52 weeks) ended February 27, 1993

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10876

SHOPKO STORES, INC.

(Exact name of registrant as specified in its Charter)

Minnesota

41-0985054

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

54304  
(Zip Code)

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

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

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

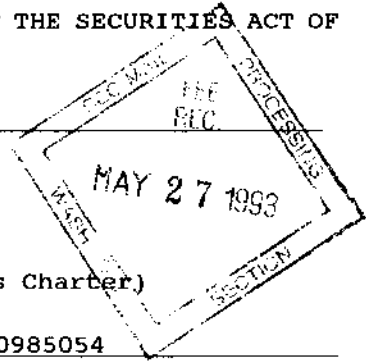
Securities registered pursuant to Section 12(g) of the Act: None.

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 ☒ No ☐

[Cover page 1 of 2 pages]

Exhibit Index  
on Page 026

Page 1 of 126 pages



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DISCLOSURE INCORPORATE

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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. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 30, 1993 was approximately \$255,800,000 (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 30, 1993: 32,000,000.

#### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's Annual Report to Shareholders for the fiscal year ended February 27, 1993 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 1993 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in said Part III.

Item 1      BUSINESS

General

ShopKo Stores, Inc., a Minnesota corporation, ("ShopKo" or the "Company"), is a leading upscale discount department store chain operating 111 retail stores in 13 upper midwest and northwest states as of February 27, 1993. The Company was founded in 1961 and was acquired by SUPERVALU Inc. ("SUPERVALU") in 1971. In October 1991, the Company completed the initial public offering of its common stock. The Company's principal executive offices are located at 700 Pilgrim Way, Green Bay, Wisconsin 54304, and its telephone number is (414) 497-2211. As used herein the terms "ShopKo" and the "Company" include ShopKo Stores, Inc. and its consolidated subsidiaries.

Merchandising and Services

The Company carries a wide selection of branded and private label "softline" goods such as women's, men's and children's apparel, shoes, jewelry, cosmetics, accessories and home textiles and "hardline" goods such as housewares, small appliances, furniture, music/videos, toys, sporting goods, seasonal and everyday basic categories. Most of the Company's stores carry more than 75,000 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's 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 111 stores at fiscal year end, 109 include pharmacy departments and 102 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.

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

During fiscal 1993, approximately 28% of the Company's net sales were derived from sales of softline goods, approximately 55% from sales of hardline goods, and approximately 17% from pharmacy and optical services.

#### Marketing and Advertising

ShopKo's marketing efforts are aimed at its core customers - middle-income shoppers who demand quality and value. The Company advertises weekly in newspapers with full-color circulars and eight times a year with direct-mail "pocketbooks". Each of the circulars, generally 12 to 24 pages in length, and the "pocketbooks" features several hundred specially priced high demand items. These frequent print promotions have a circulation of more than 3 million. These advertising materials are designed 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.

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 1993, promotional items accounted for approximately 32% 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.

#### Store Layout and Design

ShopKo stores are designed for customer convenience and for effective merchandise presentation. The new prototypes feature a fashion stage at the store entrance to create the upscale image of the store and feature high margin apparel goods. As of February 27, 1993, approximately 12% of the stores utilized this concept. The previous store layout and design reserves promotional areas adjacent to the store entrances for the Company's seasonal promotions. Under both designs, the optical and pharmacy departments are placed near the front of the store with the remainder of the store being laid out in a "racetrack" configuration which takes customers between and around departments. The Company's current promotionally priced items are prominently displayed.

In November 1991, the Company unveiled this new prototype with a remodeling and expansion of one of its Green Bay, WI stores. Also, in fiscal 1993 the Company opened three new stores (including one relocated store) and remodeled nine other stores under this prototype. 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 \$5.5 to \$11.0 million. Remodels, which generally take place approximately every seven to ten years, cost from \$500,000 to \$2 million per store.

The Company's stores average size is approximately 89,000 square feet with approximately 85% of the stores greater than 75,000 square feet. The Company anticipates that in the future its typical new store will be based on one of three standard prototypes; a 99,000 square foot store, an 88,000 square foot store or a 74,000 square foot store. The prototype selected will depend on the community and the retail competition within that community. All new stores will have more selling square footage than most of the present stores because efficiencies in purchasing and distribution will reduce the portion of the store dedicated to the storage of inventory.

#### Store Operations and Management

The Company's policies of promoting store management personnel from within and providing ongoing management training programs provide the Company with a pool of store management talent 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 12 years, and its assistant managers on an average of more than 5 years.

During the past fiscal year, the Company has developed a new store management structure that reallocates staffing from management to customer service. This new structure, which is being rolled out across the chain in fiscal 1994, is intended to improve customer satisfaction. The Gallup organization has been retained to measure and quantify the Company's performance in achieving customer satisfaction. The results of which will be used as a basis for rewards in the Company's incentive plans.

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 25% of the Company's purchases during fiscal 1993. The Company believes that most merchandise, other than branded goods, is available from a variety of sources. Approximately 500 vendors were linked to the Company's EDI purchase order system as of February 27, 1993. Vendors are expected to be added at an accelerating pace over the next couple of years. A number of vendors are now electronically receiving point-of-sale information, allowing them to respond to changing inventory levels in the stores. The Company has also begun testing purchase order acknowledgements issued by vendors based on the sales information they have received.

The Company also is in the process of expanding its central replenishment and merchandising capabilities with a significant investment in software during fiscal 1994 and fiscal 1995. The Company's ability to more effectively manage in-stock positions and better manage merchandise assortment will mean increased sales volume.

Direct imports accounted for approximately 6% of the Company's purchases during fiscal 1993. 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.

As of February 27, 1993, the Company has spent approximately \$34.0 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. Also, as part of this expansion project, the Company brought on-line a state-of-the-art warehouse management system. These expansions 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, 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 1993, approximately 58% of the merchandise sold by the Company's stores flowed 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.

ShopKo continues to upgrade its integrated information system. In addition to the central replenishment, merchandising and warehouse management systems previously mentioned, the Company will be making a significant investment in new pharmacy and optical software systems and in-store processors in fiscal 1994. These new systems will improve business and recordkeeping efficiencies in both the pharmacy and optical centers and improve the Company's ability to pursue third-party contracts, an increasingly important part of the health care industry.

### Expansion

The Company opened 3 new stores (including 1 relocated store) and remodeled 9 other stores in fiscal 1993. Present plans are to open 8 new stores (including 2 relocated stores) and remodel 16 other 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 also anticipates accelerating store remodels and will remodel existing stores based on their age, productivity and market competition.

### Competition

The discount general merchandise business is very competitive. ShopKo competes in most of its markets with a variety of national, regional and local discount stores. In addition, department stores compete in some branded merchandise lines, discount specialty retail chains compete in some merchandise lines such as electronics and toys, and 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; responsiveness to changing customer tastes and regional and local trends; customer service; in-stock availability of merchandise; and advertising.

The Company's principal national general merchandise discount chain competitors are Wal-Mart, Kmart and Target, each of which is substantially larger than, and has greater resources than, the Company. Kmart stores directly compete with virtually all of the Company's stores, Wal-Mart and Target stores directly compete with approximately one-half 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 positive growth trend, 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 27, 1993, the Company employed approximately 18,200 persons, of whom approximately 8,500 were full-time employees and 9,800 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 27, 1993, the Company operated 111 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.....	4
Iowa.....	3	South Dakota.....	6
Michigan.....	3	Utah.....	15
Minnesota.....	12	Washington.....	6
Montana.....	4	Wisconsin.....	36
Nebraska.....	10	Total.....	<u>111</u>



ShopKo owns the land and building outright with respect to 91 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 12 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 1993 through 2010. Of the three leases expiring through the end of calendar 1993, two of them relate to stores being relocated and the other one has renewal options totalling 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	265,000	Owned
Boise, Idaho	Distribution center	210,000	Owned
Omaha, Nebraska	Distribution center	50,000	Owned
Green Bay, Wisconsin	Return center	68,500	Owned

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 1993 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.....	53	President, Chief Executive Officer and Director	1991
Mark R. Kennedy.....	35	Executive Vice President	1993
Thomas D. Hendra....	47	Senior Vice President, Merchandising	1991
Eugene E. Bankers...	53	Vice President, Communications and Investor Relations	1982
Lawrence J. Clark...	45	Vice President, Finance and Distribution	1992
Steven T. Harig.....	38	Vice President, Inventory and Replenishment	1990
John W. Hermesen.....	45	Vice President, Store Operations	1986
David A. Liebergen..	46	Vice President, Human Resources/ Secretary	1986
Roger J. Chustz.....	43	Vice President, General Merchandise Manager Apparel	1993

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

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

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

Each of the executive officers of the Company has been in the employ of the Company for more than five years, except for Mark R. Kennedy, Steven T. Harig and Roger J. Chustz. Mr. Kennedy has been Executive Vice President of the Company since January 1993 and served as its CFO and Senior Vice President from February 1992 to December 1992. Mr. Kennedy was a Senior Vice President of Federated Department Stores, Inc. and Allied Stores Corporation from January 1990 to February 1992, after serving as a Vice President and Treasurer of Federated and Allied since June 1988, and as Federated's Assistant Treasurer since October 1987. 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. Mr. Chustz was employed by Maison Blanche in various positions from 1975 through 1992, most recently as Senior Vice President, General Merchandising Manager. Mr. Chustz also served as President of Brocato immediately prior to joining the Company.

## 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 1993 (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 I of Notes to Consolidated Financial Statements of the Registrant's Annual Report to the Shareholders for fiscal year 1993 (Exhibit 13) page 23.

The Registrant's revolving credit agreement has a restrictive covenant which requires maintenance of a minimum net worth. This covenant may potentially limit the payment of dividends. As of February 27, 1993 the Company was in compliance with this covenant having a net worth balance of \$355.5 million compared to a required balance of \$290.3 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 1993 (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 1993 (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 1993 (Exhibit 13) pages 14 through 23.

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

None.

### PART III

#### Item 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10, as to Directors of the Registrant and the information required by Item 401 of Regulation S-K, is incorporated by reference to the Registrant's definitive Proxy Statement dated May 14, 1993 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1993 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 14, 1993 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1993 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 14, 1993 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1993 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 14, 1993 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1993 Annual Meeting of Shareholders.

### Part IV

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

Form 10-K Page on this

(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 1993 Annual Report to Shareholders (Exhibit 13)):

11

Independent Auditors' Report  
Consolidated balance sheets as of February 27,  
1993 and February 29, 1992  
Consolidated statements of earnings for each of the  
three years in the period ended February 27, 1993  
Consolidated statements of cash flows for each of the  
three years in the period ended February 27, 1993  
Consolidated statements of shareholders' equity for each of  
the three years in the period ended February 27, 1993  
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 27, 1993 - included in Part II, Item 8  
(which incorporates information by reference to the  
Registrant's 1993 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 IX - Short-term borrowings	22
Schedule X - Supplementary income statement information	23

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  
Norwest Bank Minnesota, National Association  
(including form of preferred stock designation).

- \*\*\*\* 4.3 Credit Agreement dated as of June 23, 1992, among the Company, the banks listed there in and Morgan Guaranty Trust Company of New York, as agent. ("Credit Agreement")
- 4.31 Amendment No. 1 to Credit Agreement dated as of April 1, 1993.
- \* 10.1 ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).(1)
- \* 10.3 ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended.(1)
- 10.4 First and Second amendments to ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement.(1)
- \* 10.5 Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company.(1)
- \*\* 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 SUPERVALU 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 SUPERVALU Inc.
- \*\* 10.17 Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and SUPERVALU Inc.
- \*\*\* 10.18 Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell.(1)
- \*\* 10.19 Insurance Matters Agreement dated as of October 8, 1991 between the Company and SUPERVALU Inc.
- \* 10.20 Form of Indemnification Agreement between the Company and directors and certain officers of the Company.(1)

- \*\*\* 10.21 ShopKo Senior Officers Deferred Compensation Plan.(1)
- \*\* 10.22 ShopKo Directors Deferred Compensation Plan.(1)
- \*\*\* 10.23 ShopKo Stores, Inc. Incentive Bonus Program.(1)
- 13 1993 Annual Report to Shareholders of Registrant.
- 21.1 Subsidiaries of the Registrant.
- 23.1 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).
- \*\*\* Incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 53 weeks ended February 29, 1992.
- \*\*\*\* Incorporated by reference from the Registrant's Form 10-Q, Quarterly Report to the Securities and Exchange Commission for the 16 weeks ended June 20, 1992.
- 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.
- (1) A management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K:

No report on Form 8-K was filed during the fourth fiscal quarter of fiscal year 1993 ended February 27, 1993.

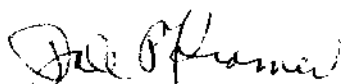
SIGNATURES

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

SHOPKO STORES, INC. (Registrant)

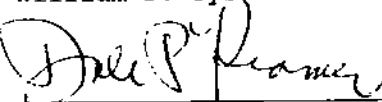
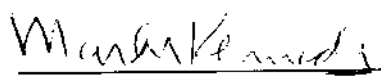
Date: May 24, 1993

By:



Dale P. Kramer  
Chief Executive Officer and  
Director

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>Michael W. Wright</u>	Chairman of the Board of Directors	
<u>William J. Tyrrell</u>	Vice Chairman of the Board of Directors	
 Dale P. Kramer	President, Chief Executive Officer and Director	May 24, 1993
 Mark R. Kennedy	Executive Vice President, (Principal Financial and Accounting Officer)	May 24, 1993
<u>Jeffrey C. Girard</u>	Director	



SIGNATURES

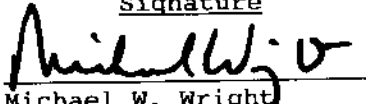
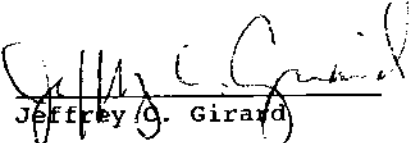
Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SHOPKO STORES, INC. (Registrant)

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

By: \_\_\_\_\_  
Dale P. Kramer  
Chief Executive Officer and  
Director

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
 Michael W. Wright	Chairman of the Board of Directors	May 24, 1993
_____ William J. Tyrrell	Vice Chairman of the Board of Directors	
_____ Dale P. Kramer	President, Chief Executive Officer and Director	
_____ Mark R. Kennedy	Executive Vice President, (Principal Financial and Accounting Officer)	
 Jeffrey C. Girard	Director	May 24, 1993

SIGNATURES


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

SHOPKO STORES, INC. (Registrant)

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

By: \_\_\_\_\_  
Dale P. Kramer  
Chief Executive Officer and  
Director

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ Michael W. Wright	Chairman of the Board of Directors	
 William J. Tyrrell	Vice Chairman of the Board of Directors	May 24, 1993
_____ Dale P. Kramer	President, Chief Executive Officer and Director	
_____ Mark R. Kennedy	Executive Vice President, (Principal Financial and Accounting Officer)	
_____ Jeffrey C. Girard	Director	

**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. and subsidiaries as of February 27, 1993 and February 29, 1992 and for each of the three years (52 weeks, 53 weeks and 52 weeks) in the period ended February 27, 1993 and have issued our report thereon dated April 2, 1993; such consolidated financial statements and report are included in your 1993 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of ShopKo Stores, Inc. and subsidiaries, listed in Item 14. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

*Deloitte & Touche*

Deloitte & Touche  
Milwaukee, Wisconsin  
April 2, 1993

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

	Balance at beginning of year	Additions	Deductions	Balance at end of year
Year (52 weeks) ended February 23, 1991:				
SUPERVALU Inc.....	\$ 223,451		\$ 19,417	\$ 204,034
Year (53 weeks) ended February 29, 1992:				
SUPERVALU Inc.....	\$ 204,034		\$ 22,867	\$ 181,167
Year (53 weeks) ended February 27, 1993:				
SUPERVALU Inc.....	\$ 181,167		\$ 181,167	\$ 0

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
Year (52 weeks) ended February 23, 1991:				
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
Leasehold Improvements.....	38,139	3,039		41,178
Equipment.....	155,558	23,730	2,444	176,844
	<u>\$ 566,870</u>	<u>\$ 59,433</u>	<u>\$ 4,100</u>	<u>\$ 622,203</u>
Year (53 weeks) ended February 29, 1992:				
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
Leasehold Improvements.....	41,178	594	869	40,903
Equipment.....	176,844	18,062	2,999	191,907
	<u>\$ 622,203</u>	<u>\$ 55,262</u>	<u>\$ 12,454</u>	<u>\$ 665,011</u>
Year (52 weeks) ended February 27, 1993:				
Land.....	\$ 89,196	\$ 13,328	\$ 130	\$ 102,394
Buildings:				
Owned.....	309,382	35,687	(7,357)	352,426
Leased.....	14,975		759	14,216
Property Under Construction.....	18,648		9,984	8,664
Leasehold Improvements.....	40,903	1,603	1,592	40,914
Equipment.....	191,907	40,442	10,895	221,454
	<u>\$ 665,011</u>	<u>\$ 91,060</u>	<u>\$ 16,003</u>	<u>\$ 740,068</u>

(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
Year (52 weeks) ended February 23, 1991:				
Buildings:				
Owned.....	\$ 54,659	\$ 12,887	\$ 1,187	\$ 66,359
Leased.....	11,390	1,787		13,177
Leasehold Improvements.....	7,293	2,594		9,887
Equipment.....	81,263	21,866	2,355	100,774
	<u>\$ 154,605</u>	<u>\$ 39,134</u>	<u>\$ 3,542</u>	<u>\$ 190,197</u>

Year (53 weeks) ended February 29, 1992:				
Buildings:				
Owned.....	\$ 66,359	\$ 14,004	\$ 77	\$ 80,286
Leased.....	13,177	1,415	7,046	7,546
Leasehold Improvements.....	9,887	2,630	863	11,654
Equipment.....	100,774	22,323	2,795	120,302
	<u>\$ 190,197</u>	<u>\$ 40,372</u>	<u>\$ 10,781</u>	<u>\$ 219,788</u>

Year (52 weeks) ended February 27, 1993:				
Buildings:				
Owned.....	\$ 80,286	\$ 15,663	\$ 2,509	\$ 93,440
Leased.....	7,546	869	759	7,656
Leasehold Improvements.....	11,654	2,625	1,592	12,687
Equipment.....	120,302	23,889	10,974	133,217
	<u>\$ 219,788</u>	<u>\$ 43,046</u>	<u>\$ 15,834</u>	<u>\$ 247,000</u>

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
Year (52 weeks) ended February 23, 1991:				
Allowance for losses.....	\$ 1,370	\$ 215	\$ 175	\$ 1,410
Year (53 weeks) ended February 29, 1992:				
Allowance for losses.....	\$ 1,410	\$ 139	\$ (829)	\$ 2,378
Year (52 weeks) ended February 27, 1993:				
Allowance for losses.....	\$ 2,378	\$ 143	\$ 943	\$ 1,578

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

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

Category of short-term Borrowings	End of Year		Maximum Amount Outstanding During the Year	Fiscal Year Averages	
	Balance	Weighted Average Interest Rate		Average Amt Outstanding	Weighted Avg. Interest Rate
<u>February 27, 1993</u>				(A)	(B)
Notes Payable to Banks	\$15,025	3.30%	\$47,700	\$14,053	4.01%

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

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



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

	Fiscal years ended		
	February 23, 1991	February 29, 1992	February 27, 1993
	(52 weeks)	(53 weeks)	(52 weeks)
1. Maintenance and repairs.....	*	*	*
2. Amortization of intangible assets.....	*	*	*
3. Taxes other than payroll and income taxes:	*	*	*
4. Royalties.....	*	*	*
5. Advertising costs**.....	\$ 20,293	\$ 20,391	\$ 20,953

\*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.	Incorporated by Reference
4.1.2	Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2022.	Incorporated by Reference
4.2	Form of Rights Agreement between the Company and Norwest Bank Minnesota, National Association (including form of preferred stock designation).	Incorporated by Reference
4.3	Credit Agreement dated as of June 23, 1992 among the Company, the banks listed there in and Morgan Guaranty Trust Company of New York, as Agent ("Credit Agreement").	Incorporated by Reference
4.31	Amendment No. 1 to Credit Agreement dated as of April 1, 1993.	028
10.1	ShopKo Stores, Inc. 1991 Stock Option Plan (including forms of Stock Option Agreements).	Incorporated by Reference
10.3	ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended.	Incorporated by Reference
10.4	First and second amendments to ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement.	035
10.5	Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company.	Incorporated by Reference

<u>EXHIBIT NUMBER</u>	<u>EXHIBIT</u>	<u>SEQUENTIAL PAGE NUMBER IN MANUALLY SIGNED ORIGINAL</u>
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 SUPERVALU 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 SUPERVALU Inc.	Incorporated by Reference
10.17	Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and SUPERVALU Inc.	Incorporated by Reference
10.18	Consulting agreement dated as of April 8, 1992 between the Company and William J. Tyrrell.	Incorporated by Reference
10.19	Insurance Matters Agreement dated as of October 8, 1991 between the Company and SUPERVALU Inc.	Incorporated by Reference
10.20	Form of Indemnification Agreement between the Company and directors and certain officers of the Company.	Incorporated by Reference
10.21	ShopKo Senior Officers Deferred Compensation Plan.	Incorporated by Reference
10.22	ShopKo Directors Deferred Compensation Plan.	Incorporated by Reference
10.23	ShopKo Stores, Inc. Incentive Bonus Program.	Incorporated by Reference
13	1993 Annual Report to Shareholders of Registrant.	094
21.1	Subsidiaries of the Registrant.	123
23.1	Consent of Deloitte & Touche.	125

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

**EXHIBITS  
FOLLOW**

Exhibit 4.31

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT dated as of April 1, 1993 among SHOPKO STORES, INC. (the "Borrower"), the BANKS listed on the signature pages hereof (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

W I T N E S S E T H :

WHEREAS, the parties hereto have heretofore entered into a Credit Agreement dated as of June 23, 1992 (the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement to add certain covenants and to provide for a waiver of compliance with the covenant restricting sales of assets by the Borrower.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

SECTION 2. Amendment of Sections 5.01(c) and (d) of the Agreement. Sections 5.01(c) and (d) of the Agreement are amended by inserting immediately after "5.09, inclusive," in each case the phrase "and Section 5.12".

SECTION 3. Amendment of Section 5.08(j) of the Agreement. Section 5.08(j) of the Agreement is amended by inserting immediately after "(ii)" the phrase "the sum of

(x) the aggregate principal amount of Debt outstanding permitted by Section 5.12(c) (without duplication of any Debt subject to this Section 5.08(j)) plus (y)".

SECTION 4. Amendment of Section 5.09(c) of the Agreement. Section 5.09(c) of the Agreement is amended by inserting immediately after "(ii)" the phrase "the sum of (x) the aggregate principal amount of Debt outstanding permitted by Section 5.12(c) plus (y) without duplication,".

SECTION 5. Amendment of Article V. Article V of the Agreement is amended by adding the following new Sections 5.12 and 5.13 immediately after Section 5.11:

Section 5.12. Limitation on Subsidiary Debt. The Borrower will not permit any of its Subsidiaries to incur or at any time be liable with respect to any Debt except (a) Debt owing to the Borrower or any wholly owned Subsidiary, (b) Debt which is secured by a Lien permitted by Sections 5.08(a) through 5.08(i), inclusive, and (c) Debt not otherwise permitted by the foregoing clauses of this Section in an aggregate principal amount at any time outstanding not to exceed an amount equal to (i) 15% of Consolidated Tangible Assets less (ii) the sum of (x) the aggregate principal amount of Debt at the time outstanding secured by Liens permitted by clause (j) of Section 5.08 (without duplication of any Debt subject to this Section 5.12) and (y) the aggregate Attributable Value of all Sale and Leaseback Transactions (except for any Sale and Leaseback Transactions not exceeding 36 months) entered into after the date of this Agreement pursuant to Section 5.09(c).

Section 5.13. Limitation on Certain Covenant Restrictions. The Borrower will not, and will not permit any Subsidiary to, enter into or permit to exist any agreement with any Person which prohibits or limits the ability of any Subsidiary to (a) declare or pay any dividend or (b) make any loan to or investment in the Borrower or any other Subsidiary; provided that this clause (b) shall not prohibit agreements between the Borrower or any Subsidiary and any Person which require that transactions with any Affiliate (i) be on an "arm's-length" basis, (ii) be approved by the disinterested directors of the Board of Directors, or (iii) be subject to any substantive or procedural requirements substantially similar to clause (i) or (ii) above.

SECTION 6. Waiver of Compliance with Section 5.09. Each Bank hereby waives the application of the provisions of Section 5.09(b) of the Agreement to (and any calculation of the aggregate book value of Operating Property sold, leased or otherwise transferred pursuant to Section 5.09(b) shall exclude the effect of) the transfer by the Borrower, on or before March 19, 1993, of the Borrower's 30 existing retail stores and two distribution centers located outside the State of Wisconsin and identified in Annex A hereto to a wholly owned Subsidiary pursuant to a tax-free exchange under the Internal Revenue Code of 1986, as amended.

SECTION 7. No Other Waivers. Other than as specifically provided herein, this Amendment shall not operate as a waiver or amendment of any right, power or privilege of the Banks under the Agreement or of any other term or condition of the Agreement nor shall the entering into of this Amendment preclude the Banks from refusing to enter into any further waivers or amendments with respect to the Agreement.

SECTION 8. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 9. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective as of the date hereof when the Agent shall have received duly executed counterparts hereof signed by the Borrower and the Required Banks (or, in the case of any party as to which an executed counterpart shall not have been received, the Agent shall have received telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party).

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

SHOPKO STORES, INC.

By Lawrence J. Clark  
Title: Vice President Finance



MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK

By \_\_\_\_\_  
Title:

J.P. MORGAN DELAWARE

By \_\_\_\_\_  
Title:

FIRST BANK NATIONAL  
ASSOCIATION

By \_\_\_\_\_  
Title:

NATIONSBANK OF NORTH  
CAROLINA, N.A.

By \_\_\_\_\_  
Title:

PNC BANK, N.A. (formerly  
Pittsburgh National Bank)

By \_\_\_\_\_  
Title:

KELLOGG-CITIZENS NATIONAL  
BANK OF GREEN BAY

By \_\_\_\_\_  
Title:

BANK ONE, GREEN BAY

By \_\_\_\_\_  
Title:

FIRSTAR BANK MILWAUKEE, N.A.  
(formerly First Wisconsin  
National Bank of Milwaukee)

By \_\_\_\_\_  
Title:

# Annex A

## ShopKo Properties, Inc. Subsidiary Corp.

<u>#</u>	<u>City</u>	<u>State</u>
64	Nampa	ID
65	Boise	ID
67	Twin Falls	ID
68	Idaho Falls	ID
69	Cour D'Alene	ID
72	Lewiston	ID
95	Boise	ID
997	Distribution Center	ID
10	Marquette	MI
11	Kingsford	MI
16	Escanaba	MI
21	Mankato	MN
35	Rochester	MN
36	Rochester	MN
41	Austin	MN
57	Winona	MN
58	Worthington	MN
61	St Cloud	MN
62	Great Falls	MT
75	Missoula	MT
38	Grand Island	NE
39	Lincoln	NE
45	Bellevue	NE
47	Lincoln	NE
998	Distribution Center	NE
22	Mitchell	SD
49	Aberdeen	SD
66	Spokane	WA
70	Spokane	WA
73	Yakima	WA
81	Yakima	WA
89	Walla Walla	WA

Exhibit 10.4

**FIRST AMENDMENT OF  
THE SHOPKO STORES, INC.  
PROFIT SHARING AND SUPER SAVER PLAN  
(1989 Restatement)**

This Agreement, made and entered into as of October 21, 1992, by and between SHOPKO STORES, INC., a Minnesota corporation (the "Principal Sponsor"), and BANK ONE WISCONSIN TRUST COMPANY, NA, a national banking association of Milwaukee, Wisconsin, as trustee (together with its successors, the "Trustee");

WITNESSETH That:

WHEREAS, The Principal Sponsor has heretofore established and maintained a profit sharing plan (the "Plan") which, in its most recent amended and restated form is embodied in a document entitled "SHOPKO STORES, INC. PROFIT SHARING AND SUPER SAVER PLAN (1989 Restatement)" effective February 26, 1989 (the "Plan Statement"); and

WHEREAS, The Principal Sponsor has reserved to itself the power to amend the Plan Statement; and

WHEREAS, The Principal Sponsor, by action of its Board of Directors taken on October 21, 1992, amended the Plan by a First Amendment;

NOW, THEREFORE, In consideration of the premises and pursuant to the said power of amendment, the Plan Statement is hereby amended in the following respects:

**1. AMENDMENT.**

**9.1. Amendment.** The Principal Sponsor reserves the power to amend this Plan Statement either prospectively or retroactively or both:

- (a) in any respect by resolution of its Board of Directors; and
- (b) in any respect that does not materially increase the cost of the Plan by action of the ShopKo Stores, Inc. Retirement Committee (with the written concurrence of the Chief Executive Officer of ShopKo Stores, Inc.);

provided that no amendment shall be effective to reduce or divest the Total Account of any Participant unless the same shall have been adopted with the consent of the Secretary of Labor pursuant to the provisions of ERISA, or in order to comply with the provisions of the Code and the regulations and rulings thereunder affecting the tax-qualified status of the Plan and the deductibility of Employer contributions thereto.

**2. SAVINGS CLAUSE.** Save and except as hereinabove expressly amended, the Plan Statement shall continue in full force and effect.

IN WITNESS WHEREOF, Each of the parties hereto has caused these presents to be executed, all as of the day and year first above written.

BANK ONE WISCONSIN TRUST  
COMPANY, NA

SHOPKO STORES, INC.

By Judith A. Anderson  
Its Trust Officer

By David A. Richman  
Its Vice President of Human  
Resources / Secretary

And Gary T. [Signature]  
Its A.V.P.

And Lawrence J. [Signature]  
Its Vice President of Finance  
and Distribution

**SECOND AMENDMENT OF  
THE SHOPKO STORES, INC.  
PROFIT SHARING AND SUPER SAVER PLAN  
(1989 Restatement)**

This Agreement, made and entered into as of March 10, 1993, by and between SHOPKO STORES, INC., a Minnesota corporation (the "Principal Sponsor"), and BANK ONE WISCONSIN TRUST COMPANY, NA, a national banking association of Milwaukee, Wisconsin, as trustee (together with its successors, the "Trustee");

WITNESSETH That:

WHEREAS, The Principal Sponsor has heretofore established and maintained a profit sharing plan (the "Plan") which, in its most recent amended and restated form is embodied in a document entitled "SHOPKO STORES, INC. PROFIT SHARING AND SUPER SAVER PLAN (1989 Restatement)" effective February 26, 1989 (the "Plan Statement"); and

WHEREAS, The Principal Sponsor has reserved to itself the power to amend the Plan Statement; and

WHEREAS, The Principal Sponsor, by action of its Board of Directors taken on October 21, 1991, amended the Plan by a First Amendment (the Plan, as so amended is hereinafter referred to as the "Plan Statement"); and

WHEREAS, The Principal Sponsor desires to amend further the Plan Statement in the manner hereinafter set forth and the making of this Amendment has been duly authorized by the Retirement Committee pursuant to authority granted in Section 9.1 of the Plan Statement, with the written concurrence of the Chief Executive Officer of the Principal Sponsor;

NOW, THEREFORE, In consideration of the premises and pursuant to the said power of amendment, the Plan Statement is hereby amended in the following respects:

1. **PLAN NAME CHANGE.** Effective for the Plan Year beginning on February 26, 1989 and subsequent Plan Years, the name of the Plan, "Shopko Stores, Inc. Profit Sharing and Super Saver Plan" is amended to be "Profit Sharing and Super Saver Plan" and all references to the Plan name are amended accordingly.
2. **ELIMINATION OF ADMINISTRATIVE COMMITTEE DEFINITION.** Effective February 28, 1993 and subsequent Plan Years, Section 1.1.2 of the Plan Statement (the definition of Administrative Committee) is deleted without replacement. Sections 1.1.3 through 1.1.33 shall be renumbered accordingly.
3. **SUBSTITUTION OF RETIREMENT COMMITTEE FOR ADMINISTRATIVE COMMITTEE.** Effective February 28, 1993 the phrase "Administrative Committee" shall be deleted and replaced with the phrase "Retirement Committee" in the following Plan Sections:

- Plan Section 1.1.7
- Plan Section 1.1.11
- Plan Section 1.1.15(d)(iii)
- Plan Section 1.1.26
- Plan Section 1.2
- Plan Section 2.3
- Plan Section 2.4
- Plan Section 2.5 (including all subsections)
- Plan Section 2.6 (including all subsections)
- Plan Section 3.5 (including all subsections)
- Plan Section 3.6 (including all subsections)

Plan Section 4.1.2  
 Plan Section 4.3  
 Plan Section 6.3  
 Plan Section 7.1.1  
 Plan Section 7.2 (including all subsections)  
 Plan Section 7.4 (including all subsections)  
 Plan Section 7.8.1  
 Plan Section 7.9 (including all subsections)  
 Plan Section 7.10 (including all subsections)  
 Plan Section 7.11.2  
 Plan Section 7.11.5  
 Plan Section 7.11.6  
 Plan Section 7.11.8  
 Plan Section 7.12.1 (including all subsections)  
 Plan Section 10.6(f)  
 Plan Section 10.6(g)  
 Plan Section 11.1  
 Plan Section 11.2  
 Plan Section 11.4 (including all subsections)

4. **EMPLOYER MATCHING ACCOUNT.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, Section 1.1.1 is amended by adding a new subsection (c) to read as follows:

(c) **Employer Matching Account** — the Account maintained for each Participant to which is credited the Participant's allocable share of the Employer contributions made pursuant to Section 3.10 or made pursuant to Section 3.3.3, together with any increase or decrease thereon. The Employer Matching Account shall remain permanently invested in the investment subfund designated by the Retirement Committee as the ShopKo stock subfund.

Subsections (c) through (g) of Section 1.1.1 shall be redesignated as subsections (d) through (h).

5. **AFFILIATE.** Effective February 28, 1993, the last sentence of Section 1.1.3 of the Plan shall be amended to read as follows:

In addition to said required treatment, the Principal Sponsor may, in its discretion, designate as an Affiliate any business entity which is not such a "common control," "affiliated service group" or "predecessor" business entity but which is otherwise affiliated with SHOPKO STORES, INC., subject to such limitations as the Principal Sponsor may impose.

6. **EQUIVALENCY FOR EXEMPT EMPLOYEES.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, Section 1.1.15(f) of the Plan Statement is amended by replacing the phrase "two hundred ten (210) Hours of Service" with the following:

one hundred ninety (190) Hours of Service.

7. **SPECIAL RULES.** Effective February 28, 1993, Section 1.1.15 (e) of the Plan Statement shall be amended by deleting the following sentence:

In addition to the foregoing (and not in lieu thereof), service with corporations listed in the Schedule II to this Plan Statement from and after the "earliest date" therein recited but before the "latest date" therein recited shall be considered to be the equivalent of



employment with the Employer for the purpose of determining Eligibility Service and Vesting Service.

8. **EQUIVALENCY FOR NON-EXEMPT TRUCK DRIVERS.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, Section 1.1.15 of the Plan Statement is amended by adding the following subsection (g):

- (g) **Equivalency for Non-Exempt Truck Drivers.** Notwithstanding anything to the contrary in the foregoing, the Hours of Service for any truck driver for whom the Employer or an Affiliate is required by state or federal "wage and hour" or other law to count hours worked shall be credited on the basis that, without regard to the employee's actual hours, such employee shall be credited with the number of hours equal to the employee's total earnings for the performance of duties during the computation period divided by the minimum wage as established from time to time under section 6(a)(1) of the Fair Labor Standards Act of 1938, as amended; provided that 750 Hours of Service credited under this paragraph (g) are treated as equivalent to 1,000 Hours of Service and 375 Hours of Service under this paragraph (g) are treated as equivalent to 500 Hours of Service.

9. **PLAN NAME CHANGE.** Effective for the Plan Year beginning on February 26, 1989 and subsequent Plan Years, Section 1.1.20 of the Plan Statement is amended by adding at the end thereto a new sentence to read in full as follows:

Effective February 26, 1989, the name of the Plan was amended to be "PROFIT SHARING AND SUPER SAVER PLAN."

10. **PLAN STATEMENT NAME CHANGE.** Effective February 25, 1990, the name of the Plan Statement, "Shopko Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement)" is amended to be "Profit Sharing and Super Saver Plan (1989 Restatement)" and all references to the Plan Statement are amended accordingly. Effective for the Plan Year beginning on February 26, 1989 and subsequent Plan Years, Section 1.1.21 of the Plan Statement is amended by adding at the end thereto a new sentence to read in full as follows:

Effective February 26, 1989, the name of the Plan Statement was amended to be the "PROFIT SHARING AND SUPER SAVER PLAN TRUST AGREEMENT (1989 Restatement)."

11. **RECOGNIZED COMPENSATION.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, Section 1.1.25 of the Plan Statement is amended to read in full as follows:

1.1.25. **Recognized Compensation** — wages within the meaning of section 3401(a) of the Code for purposes of federal income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Code) and paid to the Participant by the Employer for the applicable period; subject, however, to the following:

- (a) **Included Items.** In determining a Participant's Recognized Compensation there shall be included elective contributions made by the Employer on behalf of the Participant that are not includible in gross income under sections 125, 402(a)(8), 402(h), 403(b), 414(h)(2) and 457 of the Code including elective contributions authorized by the Participant under a Retirement Savings Agreement.

a cafeteria plan or any other qualified cash or deferred arrangement under section 401(k) of the Code.

- (b) **Pre-Participation Employment.** Remuneration paid by the Employer attributable to periods prior to the date the Participant became a Participant in the Plan shall not be taken into account in determining the Participant's Recognized Compensation.
- (c) **Non-Recognized Employment.** Remuneration paid by the Employer for employment that is not Recognized Employment shall not be taken into account in determining a Participant's Recognized Compensation.
- (d) **Attribution to Periods.** A Participant's Recognized Compensation shall be considered attributable to the period in which it is actually paid and not when earned or accrued; provided, however, that amounts earned but not paid in a Plan Year because of timing of pay periods and pay days may be included in the Plan Year when earned if these amounts are paid during the first few weeks of the next Plan Year, the amounts are included on a uniform and consistent basis with respect to all similarly situated Participants and no amount is included in more than one Plan Year.
- (e) **Excluded Periods.** Amounts received after the Participant's termination of employment shall not be taken into account in determining a Participant's Recognized Compensation; provided, however, that amounts attributable to severance pay, vacation pay, and stock options earned but not paid or exercised during the Participant's period of Recognized Employment shall be taken into account in determining a Participant's Recognized Compensation if the severance pay or vacation pay is paid, or stock options are exercised, during the first few weeks after termination of Recognized Employment and the amounts are included on a uniform and consistent basis with respect to all similarly situated Participants.
- (f) **Multiple Employers.** If a Participant is employed by more than one Employer in a Plan Year, a separate amount of Recognized Compensation shall be determined for each Employer.
- (g) **Annual Maximum.** A Participant's Recognized Compensation for a Plan Year shall not exceed Two Hundred Thousand Dollars (\$200,000), as adjusted under the Code for cost of living increases. In determining a Participant's Recognized Compensation, the rules of section 414(q)(6) of the Code apply, except that in applying such rules, the term "family" shall include only the spouse of the Participant and lineal descendants of the Participant who have not attained age nineteen (19) years before the close of the Plan Year; provided, however, that the rule in this sentence shall not apply to the Seven Thousand Dollar (\$7,000) limit specified in Section 2.4. If Participants are aggregated as such family members (and do not otherwise agree in writing), the Recognized Compensation of each family member shall equal Two Hundred Thousand Dollars (\$200,000) (as so adjusted) multiplied by a fraction, the numerator of which is such family member's Recognized Compensation (before application of the \$200,000 limit as adjusted) and the denominator of which is the total Recognized Compensation (before application of the \$200,000 limit as adjusted) of all such family members.

12. **INCLUSION OF OPTOMETRISTS IN RECOGNIZED EMPLOYMENT.** Effective for the Plan Year beginning on February 24, 1991 and for subsequent Plan Years, Section 1.1.26 of the Plan Statement is amended to read in full as follows:

1.2.26. **Recognized Employment** — all employment with the Employer, excluding however:

- (a) employment in a unit of employees whose terms and conditions of employment are subject to a collective bargaining agreement between

the Employer and a union representing that unit of employees, unless such collective bargaining agreement provides for the inclusion of those employees in the Plan.

- (b) employment of a nonresident alien who is not receiving any earned income from the Employer which constitutes income from sources within the United States,
- (c) employment in a division or facility of the Employer which is not in existence on February 26, 1989 (that is, was acquired, established, founded or produced by the liquidation or similar discontinuation of a separate subsidiary after February 26, 1989) unless and until the Retirement Committee shall declare such employment to be Recognized Employment,
- (d) employment of a United States citizen outside the United States unless and until the Retirement Committee shall declare such employment to be Recognized Employment,
- (e) services of a person who is not a common law employee of the Employer including, without limiting the generality of the foregoing, services of a leased employee, leased owner, leased manager, shared employee, shared leased employee or other similar classification, and
- (f) employment of a highly compensated employee (as defined in Appendix D to this Plan Statement) to the extent agreed to in writing by the employee.

13. **RETIREMENT COMMITTEE.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 1.1.27 of the Plan shall be amended to read in full as follows:

1.1.27. **Retirement Committee.** The committee established in accordance with the provisions of Section 12.2, also known as the Committee.

14. **SUPER SAVER AGREEMENT.** Effective for the Plan Year beginning on February 28, 1993 and subsequent Plan Years, Section 2.4 of the Plan Statement is amended to read in full as follows:

2.4. **Super Saver Agreement.** Subject to the following rules, the Super Saver Agreement which each Participant may execute shall provide for retirement savings through a reduction of the amount of Recognized Compensation which otherwise would be paid to the Participant by the Employer each payday either:

- (a) in even increments of one percent (1%) equal to not less than one percent (1%) nor more than nine percent (9%) if the Participant is not a highly compensated employee (as defined in Appendix D) for the Plan Year, or
- (b) in even increments of one percent (1%) equal to not less than one percent (1%) nor more than five percent (5%) if the Participant is a highly compensated employee (as defined in Appendix D) for the Plan Year.

Such retirement savings, however, shall not exceed Seven Thousand Dollars (\$7,000) under the Plan and any other plan of the Employer and Affiliates for that Participant's taxable year. Such Seven Thousand Dollar (\$7,000) limit shall be adjusted for cost of living at the same time and in the same manner as under section 415(d) of the Code.

The Retirement Committee may, from time to time under rules, change the minimum and maximum allowable retirement savings. The reductions in earnings for retirement savings agreed to by the Participant shall be made by the Employer from the Participant's remuneration each payday on and after the date of the Participant's enrollment for so long as the Super Saver Agreement remains in effect.

15. **FAMILY MEMBER.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 2.6.2(b) of the Plan Statement shall be amended to read in full as follows:

- (b) **Family Member.** If a highly compensated eligible employee is subject to the family aggregation rules of section 414(q)(6) of the Code because such employee is either a five percent (5%) owner or one of the ten (10) most highly compensated employees (as defined in Appendix D to this Plan Statement), the combined deferral percentage for the family group (which is treated as one highly compensated eligible employee) shall be determined by combining the amounts described in Section 2.6.1(c)(i) and by combining the compensation described in Section 2.6.1(d) of all family members who are eligible employees. The family members who are aggregated with respect to a highly compensated eligible employee shall be disregarded as separate eligible employees in determining the average deferral percentage of highly compensated eligible employees and the average deferral percentage of all other eligible employees. If an eligible employee is required to be aggregated as a member of more than one family group in the Plan, all eligible employees who are members of those family groups that include that eligible employee are aggregated as one family group. With respect to any highly compensated eligible employee, "family" shall mean the employee's spouse and lineal ascendants and descendants and the spouses of such lineal ascendants and descendants. The Two Hundred Thousand Dollar (\$200,000) limit on compensation, as adjusted under the Code for cost of living increases, applies to the above deferral percentage determination except that for purposes of that limit, the term "family" shall include only the spouse of the eligible employee and lineal descendants of the eligible employee who have not attained age nineteen (19) years before the close of that Plan Year.

16. **RESTRUCTURING.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 2.6.2(e) of the Plan Statement is deleted.

17. **LIMITATION.** Effective February 28, 1993, Section 3.1.2 of the Plan Statement shall be amended by deleting the phrase "stock bonus."

18. **DISCRETIONARY CONTRIBUTIONS.** Effective for contributions made for the Plan Year beginning February 28, 1993 and for subsequent Plan Years, Section 3.3 of the Plan shall be amended in full to read as follows:

**3.3.1. General.** The Employer may (but shall not be required to) make discretionary contributions from year to year during the continuance of the Plan in such amounts as the Board of Directors of ShopKo Stores, Inc. (or a committee appointed by the Board of Directors of ShopKo Stores, Inc.) shall from time to time determine. Such contributions shall be delivered to the Trustee for deposit in the Fund not later than the time prescribed by federal law (including extensions) for filing the federal income tax return of the Employer for the taxable year in which the Plan Year ends. The Employer discretionary contribution for a Plan Year, including forfeited Suspense Accounts, if any to be included with that contribution or reallocated as of the Annual Valuation Date of such Plan Year, shall be allocated in the following order.

**3.3.2. Section 401(k) Curative Allocation.** If neither of the section 401(k) tests set forth in Section 2 has been satisfied and a distribution of "excess contributions" has not been made pursuant to Section 7, then all or a portion of the Employer discretionary contribution for that Plan Year shall be allocated to meet one of such tests. Forfeited Suspense Accounts, however, shall not be included in this allocation. Only those Participants who were not "highly compensated eligible employees" (as defined in Section 2) for that Plan Year and for whom some contribution was made pursuant to Section 3.2 for such Plan Year shall share in such allocation. This allocation shall be made first to the Participant with the least amount of compensation (as defined in Section 2) and then, in ascending order of compensation (as defined in Section 2), to other Participants. The amount of the Employer discretionary contribution to be so allocated shall be that amount required to cause the Plan to satisfy either of the section 401(k) tests set forth in Section 2 for the Plan Year; provided, however, that in no case shall amounts be so allocated to cause a Participant's deferral percentage (as defined in Section 2) to exceed twenty percent (20%). The Employer discretionary contribution so allocated to a Participant shall be credited to that Participant's Super Saver Account as of the Annual Valuation Date in the Plan Year for which this Employer discretionary contribution is made, or if earlier, the Valuation Date coincident with or next following the date as of which such contribution is received by the Trustee. For the purpose of allocating gains and losses under Section 4, however, the contribution shall be credited as of the Valuation Date coincident with or next following the date on which the contribution is received by the Trustee.

**3.3.3. Section 401(m) Curative Allocation.** If neither of the section 401(m) tests set forth in Section 3 has been satisfied and a distribution of "excess aggregate contributions" has not been made pursuant to Section 7, then any remaining portion of the Employer discretionary contribution for that Plan Year shall be allocated to meet one of such tests. Forfeited Suspense Accounts, however, shall not be included in this allocation. Only those Participants who were not "highly compensated eligible employees" (as defined in Section 3) for that Plan Year and who were entitled to receive an Employer matching contribution shall share in such allocation. This allocation shall be made to the Participant with the least amount of compensation (as defined in Section 3) and then, in ascending order of compensation (as defined in Section 3), to other Participants. The amount of the Employer discretionary contribution to be so allocated shall be that amount required to cause the Plan to satisfy either of the section 401(m) tests set forth in Section 3 for the Plan Year. The Employer discretionary contribution so allocated to a Participant shall be credited to that Participant's Employer Matching Account as of the Annual Valuation Date in the Plan Year for which this Employer discretionary contribution is made, or if earlier, the Valuation Date coincident with or next following the date as of which such contribution is received by the Trustee. For the purpose of allocating gains and losses under Section 4, however, the contribution shall be credited as of the Valuation Date coincident with or next following the date on which the contribution is received by the Trustee.

**3.3.4. Discretionary Profit Sharing Contributions.** Any remaining portion of the Employer discretionary contribution shall be allocated to the Profit Sharing Accounts of eligible Participants under Section 3.4. The contribution shall be allocated to the Profit Sharing Accounts of eligible Participants in the ratio which the Recognized Compensation of each such eligible Participant for the Plan Year bears to the Recognized Compensation for such Plan Year of all such eligible Participants. The amount so allocated to an eligible Participant shall be credited to such Participant's Profit Sharing Account as of the Annual Valuation Date in the Plan Year for which such contribution is made, or if earlier, the Valuation Date coincident with or next following the date as of which such contribution is received by the Trustee. For the purpose of allocating gains and losses under Section 4, however, the contribution shall be credited as of the

Valuation Date coincident with or next following the date on which the contribution is received by the Trustee.

**19. EXCLUSION OF OPTOMETRISTS FROM PROFIT SHARING.** Effective February 24, 1991, Section 3.4 of the Plan Statement is amended by adding at the end thereto a new sentence to read in full as follows:

Notwithstanding the foregoing, a Participant who is in Recognized Employment as a licensed optometrist is not an eligible Participant.

**20. ROLLOVERS.** Effective for rollover contributions made on and after February 26, 1989, Sections 3.6.2 and 3.6.4 of the Plan Statement shall be amended by replacing each occurrence of the word "Participant" with the following phrase:

employee in Recognized Employment

**21. DISALLOWANCE OF DEDUCTION OR MISTAKE OF FACT.** Effective for any contribution made on or after February 28, 1993, Section 3.9 of the Plan is amended in full to read as follows:

**3.9. Effect of Disallowance of Deduction or Mistake of Fact.** All Employer contributions to the Plan are conditioned on their qualification for deduction for federal income tax purposes under section 404 of the Code. If any such deduction should be disallowed, in whole or in part, for any Employer contribution to the Plan for any year, or if any Employer contribution to the Plan is made by reason of a mistake of fact, then there shall be calculated the excess of the amount contributed over the amount that would have been contributed had there not occurred a mistake in determining the deduction or a mistake of fact. The Principal Sponsor shall direct the Trustee to return such excess, adjusted for its pro rata share of any net loss (but not any net gain) in the value of the Fund which accrued while such excess was held therein, to the Employer within one (1) year of the disallowance of the deduction or the mistaken payment of the contribution, as the case may be. If the return of such amount would cause the balance of any Account of any Participant to be reduced to less than the balance which would have been in such Account had the mistaken amount not been contributed, however, the amount to be returned to the Employer shall be limited so as to avoid such reduction.

**22. MATCHING EMPLOYER CONTRIBUTIONS.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, the Plan Statement is amended by adding a new Section 3.10 to read as follows:

**3.10. Matching Employer Contributions.**

**3.10.1. Amount and Eligibility.** The Employer shall contribute to the Trustee for deposit in the Fund and for crediting to the Participant's Employer Matching Account an amount which will equal fifty-percent (50%) of the amount of the first six percent (6%) of reduction in Recognized Compensation for the Plan Year which was agreed to by the Participant pursuant to a Super Saver Agreement; provided, however, that no Participant who is in Recognized Employment as a licensed optometrist shall be eligible to receive a matching contribution. Such Employer matching contributions shall be delivered to the Trustee for deposit in the Fund not later than the time prescribed by federal law (including extensions) for filing the federal income tax return of the Employer for the taxable year in which the Plan Year ends.

**3.10.2. Allocation.** The Employer matching contribution which is made with respect to a Participant shall be credited to that Participant's Employer Matching Account as of the Annual Valuation Date in the Plan Year for which such contribution is made or, if earlier, the Valuation Date coincident with or next following the date as of which such contribution is received by the trustee.

23. **SECTION 401(m) COMPLIANCE.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, the Plan Statement is amended by adding a new Section 3.11 to read as follows:

**3.11. Section 401(m) Compliance.**

**3.11.1. Special Definitions.** For purposes of this Section 3.11, the following special definitions shall apply:

- (a) **Eligible employee** means an individual who is eligible to receive an Employer matching contribution for any portion of the Plan Year (whether or not the individual does so).
- (b) **Highly compensated eligible employees** means those eligible employees defined as highly compensated employees in Appendix D to this Plan Statement.
- (c) **Contribution percentage** means the ratio (calculated separately for each eligible employee) of:
  - (i) the total amount, for the Plan Year, of Employer matching contributions credited to the eligible employee's Employer Matching Account (but if the Committee elects to include the Employer matching contributions in the section 401(k) test in Section 2, the Committee may elect to not include the Employer matching contributions in this section 401(m) test), and if the Committee elects all or a portion of the amount, for the Plan Year, of Employer contributions credited to the eligible employee's Super Saver Account or Employer Profit Sharing Account, or both, to
  - (ii) the eligible employee's Recognized Compensation for the portion of such Plan Year that the employee is an eligible employee.

For this purpose, Employer contributions will be considered made in the Plan Year if they are allocated as of a date during such Plan Year and are delivered to the Trustee within twelve (12) months after the end of such Plan Year.

- (d) **Average contribution percentage** means, for a specified group of eligible employees for the Plan Year, the average of the contribution percentages for all eligible employees in such group.

**3.11.2. Special Rules.** For purposes of this Section 3.11, the following special rules apply:

- (a) **Rounding.** The contribution percentage of each eligible employee and the average contribution percentage for each group of eligible employees shall be calculated to the nearest one-hundredth of one percent.
- (b) **Family Member.** If a highly compensated eligible employee is subject to the family aggregation rules of section 414(q)(6) of the Code because such employee is either a five percent (5%) owner or one of the ten (10) most highly compensated employees (as defined in Appendix D), the combined contribution percentage for the family

group (which is treated as one highly compensated eligible employee) shall be determined by combining the amounts described in Section 3.11.1(c)(i) and by combining the Recognized Compensation of all family members who are eligible employees. The family members who are aggregated with respect to a highly compensated eligible employee shall be disregarded as separate eligible employees in determining the average contribution percentage of highly compensated eligible employees and the average contribution percentage of all other eligible employees. If an eligible employee is required to be aggregated as a member of more than one family group in the Plan, all eligible employees who are members of those family groups that include that eligible employee are aggregated as one family group. With respect to any highly compensated eligible employee, "family" shall mean the employee's spouse and lineal ascendants and descendants and the spouses of such lineal ascendants and descendants. The Two Hundred Thousand Dollar (\$200,000) limit on compensation, as adjusted under the Code for cost of living increases, applies to the above contribution percentage determination except that for purposes of that limit, the term "family" shall include only the spouse of the eligible employee and lineal descendants of the eligible employee who have not attained age nineteen (19) years before the close of that Plan Year.

- (c) **Highly Compensated Employees.** In the case of a highly compensated eligible employee who participates in any other plan of the Employer and Affiliates (other than an employee stock ownership plan described in sections 409(a) and 4975(e)(7) of the Code) to which Employer matching contributions are made on behalf of the highly compensated eligible employee, all such Employer matching contributions, and if used to determine the contribution percentage of eligible employees, Employer contributions made pursuant to a salary reduction agreement or qualified nonelective contributions (within the meaning of section 401(m)(4)(C) of the Code), or both, shall be aggregated for purposes of determining the highly compensated eligible employee's contribution percentage; provided, however, that such Employer contributions made under an employee stock ownership plan shall not be aggregated.
- (d) **Permissive Aggregation.** To the extent permitted under the Code, the Committee may elect to aggregate the Plan with any other plan of the Employer and Affiliates for purposes of determining whether the tests set forth in this Section are satisfied for a Plan Year.

**3.11.3. The Tests.** Notwithstanding the foregoing provisions, the Employer matching contributions made for each Plan Year shall be limited and modified under rules established by the Committee and by the rules hereinafter provided in order that one of the following two (2) tests is satisfied for that Plan Year:

- Test 1:** The average contribution percentage for the group of highly compensated eligible employees is not more than the average contribution percentage of all other eligible employees multiplied by one and twenty-five hundredths (1.25).
- Test 2:** The excess of the average contribution percentage for the group of highly compensated eligible employees over that of all other eligible employees is not more than two (2) percentage points, and the average contribution percentage for the group of highly compensated eligible employees is not more than the average contribution percentage of all other eligible employees multiplied by two (2).



For any Plan Year in which Test 2 is satisfied for the purposes of the section 401(k) test in Section 2, this Plan must satisfy either: (i) Test 1 for the purposes of the section 401(m) test in this Section, or (ii) the aggregate limit as described in regulations issued by the Secretary of the Treasury. If corrective distributions under Section 7 are required to satisfy the aggregate limit, the corrective distributions shall be determined by reducing the Employer matching contributions of the highly compensated eligible employees in order of the contribution percentage beginning with the highest such percentage until the aggregate limit is satisfied.

**3.11.4. Remedial Action.** If the Committee determines that neither of the tests will be satisfied (or may not be satisfied) for a Plan Year, then during such Plan Year, the following actions may be taken so that one of the tests will be satisfied for such Plan Year:

- (a) The Employer matching contributions for the highly compensated eligible employees who have the highest contribution percentage shall be reduced to the extent necessary to reduce their contribution percentage to the next lower percentage.
- (b) If neither of the tests is satisfied after such adjustment, the Employer matching contributions for the highly compensated eligible employees who then have the highest contribution percentage (including those reduced under (c) above) shall be reduced to the extent necessary to reduce their contribution percentage to the next lower percentage.
- (c) If neither of the tests is satisfied after such adjustment, this method of adjustment shall be repeated one or more additional times until one of the tests is satisfied.

The Committee shall prescribe rules concerning such adjustments, including the frequency of applying the tests and the commencement and termination dates for any adjustments.

**24. ACCOUNTING RULES.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan Years, Section 4.2 of the Plan Statement shall be amended by adding a new Section 4.2.6 to read as follows:

**4.2.6. Other Rules.** Notwithstanding the foregoing, the Committee and the Trustee may agree in writing to revised rules or additional rules for the adjustment of Accounts including, without limiting the generality of the foregoing, the times when contributions shall be credited under Section 3 for the purposes of allocating gains or losses under this Section 4.

**25. EVENTS OF MATURITY.** Effective February 28, 1993, Section 6.1 of the Plan Statement shall be amended by adding the following language to the end of subsections (g) and (h):

and the Employer continues to maintain the Plan after the disposition

26. **VESTING.** Effective for Participants who complete one Hour of Service on or after February 28, 1993, Section 5.1.1 of the Plan Statement shall be amended to read in full as follows:

<u>When the Participant Has Completed the Following Years of Vesting Service:</u>	<u>The Vested Portion of the Participant's Profit Sharing Account Will Be:</u>
Less than 3 years	0%
3 years or more	100%

27. **OTHER ACCOUNTS.** Effective for the Plan Year beginning February 28, 1993 and subsequent Plan years, Section 5.2 of the Plan Statement shall be amended to read in full as follows:

5.2. **Other Accounts.** The Super Saver Account, Employer Matching Account, Rollover Account, Voluntary Account and Transfer Account of each Participant shall be fully (100%) Vested at all times.

28. **DIRECT ROLLOVERS.** Section 7.1 of the Plan Statement shall be amended by adding the following subsections effective for distributions made on or after January 1, 1993:

7.1.4. **Notices.** The Committee will issue such notices as may be required under sections 402(f), 411(a)(11), 417(a)(3) and other sections of the Code in connection with distributions from the Plan. No distribution will be made unless it is consistent with such notice requirements.

7.1.5. **Direct Rollover.** A Distributee who is eligible to elect a direct rollover may elect, at the time and in the manner prescribed by the Committee, to have all or any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the Distributee in a direct rollover. A Distributee who is eligible to elect a direct rollover includes only a Participant, a Beneficiary who is the surviving spouse of a Participant and a Participant's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Appendix C.

(a) **Eligible rollover distribution** means any distribution of all or any portion of a Total Account to a Distributee who is eligible to elect a direct rollover except (i) any distribution that is one of a series of substantially equal installments payable not less frequently than annually over the life expectancy of such Distributee or the joint and last survivor life expectancy of such Distributee and such Distributee's designated Beneficiary, and (ii) any distribution that is one of a series of substantially equal installments payable not less frequently than annually over a specified period of ten (10) years or more, and (iii) any distribution to the extent such distribution is required under section 401(a)(9) of the Code, and (iv) the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(b) **Eligible retirement plan** means (i) an individual retirement account described in section 408(a) of the Code, or (ii) an individual retirement annuity described in section 408(b) of the Code, or (iii) an annuity plan described in section 403(a) of the Code, or (iv) a qualified trust described in section 401(a) of the Code that accepts the eligible rollover distribution. However, in the case of an eligible rollover distribution to a Beneficiary who is the surviving spouse of a Participant, an eligible retirement plan is only an individual

retirement account or individual retirement annuity as described in section 408 of the Code.

- (c) **Direct rollover** means the payment of an eligible rollover distribution by the Plan to the eligible retirement plan specified by the Distributee who is eligible to elect a direct rollover.

**29. REQUIRED BEGINNING DATE FOR BENEFICIARY.** Effective for the Plan Year beginning on February 28, 1993 and subsequent Plan Years, Section 7.2.2(b) of the Plan Statement is amended by deleting "December 31" and inserting the following:

November 30

**30. FACILITY OF PAYMENT.** Effective for distributions made on or after February 28, 1993, Section 7.7 of the Plan Statement is amended to read in full as follows:

**7.7. Facility of Payment.** In case of the legal disability, including minority, of a Participant or Beneficiary entitled to receive any distribution under the Plan, payment shall be made, if the Retirement Committee shall be advised of the existence of such condition:

- (a) to the duly appointed guardian, conservator or other legal representative of such Participant or Beneficiary, or
- (b) to a person or institution entrusted with the care or maintenance of the incompetent or disabled Participant or Beneficiary, provided such person or institution has satisfied the Retirement Committee that the payment will be used for the best interest and assist in the care of such Participant or Beneficiary, and provided further, that no prior claim for said payment has been made by a duly appointed guardian, conservator or other legal representative of such Participant or Beneficiary.

Any payment made in accordance with the foregoing provisions of this Section shall constitute a complete discharge of any liability or obligation of the Employer, the Retirement Committee, the Trustee and the Fund therefor.

**31. HARDSHIP DISTRIBUTIONS.** Effective for hardship distributions made on or after February 28, 1993, Section 7.10 of the Plan Statement shall be amended to read in full as follows:

**7.10. Hardship Distributions.**

**7.10.1. When Available.** A Participant may receive an in-service hardship distribution from the Vested portion of the Accounts listed in Section 7.10.5 if the Committee determines that such hardship distribution is for one of the purposes described in Section 7.10.2 and the conditions in Section 7.10.3 and Section 7.10.4 have been fulfilled. To receive such a distribution, the Participant must file a hardship distribution application with the Committee. In the application, the Participant shall specify the dollar amount to be distributed. Subject to the rules in Section 7.1, such hardship distribution shall be approved by the Committee and such hardship distribution shall be made in a lump sum cash payment as soon as administratively feasible following the approval of a completed application by the Committee.

**7.10.2. Purposes.** In-service hardship distributions shall be allowed under Section 7.11.1 only if the Participant establishes that the in-service hardship distribution is to be made for one of the following purposes:

- (a) expenses for medical care described in section 213(d) of the Code previously incurred by the Participant, the Participant's spouse or any dependents of the Participant (as defined in section 152 of the Code) or necessary for these persons to obtain medical care described in section 213(d) of the Code,
- (b) costs directly related to the purchase of a principal residence for the Participant (excluding mortgage payments),
- (c) payment of tuition and related educational fees for the next twelve (12) months of post-secondary education for the Participant, or the Participant's spouse, children or dependents (as defined in section 152 of the Code), or
- (d) payments necessary to prevent the eviction of the Participant from the Participant's principal residence or foreclosure on the mortgage of that principal residence.

Such purposes shall be considered to be an immediate and heavy financial need of the Participant.

**7.10.3. Limitations.** In no event shall the cumulative amount of hardship distributions withdrawn from a Participant's Super Saver Account exceed the amount of contributions to that Account made pursuant to Section 3.2 (i.e., hardship distributions from that Account shall not include any earnings on such contributions or any curative allocations or earnings on curative allocations made pursuant to Section 3.3.2). The amount of the hardship distribution shall not exceed the amount of the Participant's immediate and heavy financial need; provided, however, that the amount of the immediate and heavy financial need may include amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution. In addition, a hardship distribution which includes a portion of the Participant's Super Saver Account shall not be allowed unless the Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans (at the time of the loan) currently available under all plans maintained by the Employer and Affiliates. Other funds are not currently available unless the funds are available prior to or coincidently with the date the hardship distribution is available.

**7.10.4. Coordination With Other Plans.** The rules described in this Section 7.10.4 apply only if the hardship distribution includes a portion of the Participant's Super Saver Account. The Participant's Super Saver Agreement and elective contributions and employee contributions under all other plans maintained by the Employer and Affiliates shall be canceled for twelve (12) months after receipt of a hardship distribution and shall not be automatically reinstated. Thereafter, the Participant may, upon giving five (5) days prior written notice to the Committee, enter into a new Super Saver Agreement effective as of the payday on or after any subsequent Enrollment Date following such twelve (12) month period, provided the Participant is in Recognized Employment on that date. In addition, the Participant shall not be allowed to make elective contributions under the Plan and all other plans maintained by the Employer and Affiliates for the Participant's taxable year immediately following the taxable year of the hardship distribution which exceed the adjusted Seven Thousand Dollar (\$7,000) limit (as described in Section 2.4) for the next taxable year less the amount of such Participant's elective contributions for the taxable year of the hardship distribution. For the purposes of this Section 7.10, all other plans maintained by the Employer and Affiliates shall mean all qualified and nonqualified plans of deferred compensation maintained by the Employer and Affiliates (including stock option, stock purchase or similar plans).

**7.10.5. Sequence Of Accounts.** Each hardship distribution made pursuant to this Section 7.10 shall first be taken from and charged to the Participant's Accounts in the following sequence:

Transfer Account  
Rollover Account  
Voluntary Account  
Super Saver Account.

Distributions from the Participant's Voluntary Account shall be distributed in the sequence described in Section 7.8.

**7.10.6. Coordination With Section 4.1.** If the hardship distribution is made from an Account which is invested in more than one (1) Subfund authorized and established under Section 4.1, the amount withdrawn shall be charged to each Subfund in the same proportions as the Account is invested in each Subfund.

**32. EXCESS ELECTIVE DEFERRALS.** Effective for the calendar year beginning on January 1, 1993 and for subsequent calendar years, Section 7.12.1 of the Plan Statement is amended to read in full as follows:

**7.12.1. Excess Elective Deferrals (\$7,000 Limit).**

- (a) **In General.** A Participant may assign to this Plan any excess elective deferrals made during a taxable year of the Participant by notifying (in writing) the Retirement Committee not later than the March 1 following such taxable year of the amount of the excess elective deferral to be assigned to the Plan. Notwithstanding any other provision of the Plan Statement, a Participant's excess elective deferrals, plus any income and minus any loss allocable thereto, shall be distributed to the Participant no later than the first April 15 following the close of the Participant's taxable year.
- (b) **Definitions.** For purposes of this Section, "excess elective deferrals" shall mean the amount of retirement savings allocated to the Participant's Super Saver Account for a Participant's taxable year and which the Participant allocates to this Plan pursuant to the claim procedure described below.
- (c) **Claims.** The Participant's claim shall be in writing; shall be submitted to the Administrative Committee not later than March 1 with respect to the immediately preceding taxable year; shall specify the amount of the Participant's excess elective deferrals for the preceding taxable year; and shall be accompanied by the Participant's written statement that if such amounts are not distributed, such excess elective deferrals, when added to amounts deferred under other plans or arrangements described in sections 401(k), 408(k) or 403(b) of the Code, will exceed the limit imposed on the Participant by section 402(g) of the Code for the taxable year in which the deferral occurred.
- (d) **Determination Of Income Or Loss.** The excess elective deferrals shall be adjusted for income or loss. The income or loss allocable to excess elective deferrals shall be determined by multiplying the income or loss allocable to the Participant's retirement savings for the Plan Year ending within such preceding taxable year by a fraction, the numerator of which is the excess elective deferrals on behalf of the Participant for such preceding taxable year and the denominator of which is the Participant's Super Saver Account balance attributable to retirement

savings on the Valuation Date coincident with or immediately before the last day of such preceding taxable year without regard to any income or loss occurring during such taxable year. The excess elective deferrals shall also be adjusted for income or loss for the period between the Valuation Date coincident with or immediately before the last day of such preceding taxable year and the date of distribution. The income or loss allocable for such period shall be equal to ten percent (10%) of the income or loss allocable to the distributable excess elective deferrals for the applicable taxable year multiplied by the number of whole calendar months that have elapsed since the Valuation Date coincident with or immediately before the last day of such taxable year, including the month of distribution if distribution occurs after the fifteenth (15th) of such month.

- (c) **Accounting for Excess Elective Deferrals.** Excess elective deferrals distributed under this Section 7.12.1 shall be distributed from the Participant's Super Saver Account.

**33. EXCESS CONTRIBUTIONS.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 7.12.2 of the Plan Statement is amended to read as follows:

**7.12.2. Excess Contributions (Section 401(k) Test).**

- (a) **In General.** Notwithstanding any other provision of the Plan Statement, excess contributions for a Plan Year, plus any income and minus any loss allocable thereto, shall be distributed no later than the last day of the following Plan Year to Participants to whose accounts retirement savings were allocated. Such distributions shall be made to highly compensated eligible employees (as defined in Section 2) on the basis of the respective portions of the excess contributions attributable to each of such employees.
- (b) **Excess Contributions.** For purposes of this Section, "excess contributions" shall mean, with respect to any Plan Year, the excess of:
  - (i) the aggregate amount of Employer contributions taken into account in computing the average deferral percentage (as defined in Section 2) of highly compensated eligible employees (as defined in Section 2) for such Plan Year, over
  - (ii) the maximum amount of such contributions permitted by the section 401(k) test described in Section 2 (determined by reducing contributions made on behalf of the highly compensated eligible employees in order of the deferral percentage, as defined in Section 2, beginning with the highest such percentage).
- (c) **Determination Of Income Or Loss.** The excess contributions shall be adjusted for income or loss. The income or loss allocable to excess contributions shall be determined by multiplying income or loss allocable to the Participant's retirement savings for the Plan Year by a fraction, the numerator of which is the excess contributions on behalf of the Participant for the Plan Year and the denominator of which is the sum of the Participant's account balances attributable to retirement savings on the last day of the Plan Year, without regard to any income or loss occurring during such Plan Year. The excess contributions shall also be adjusted for income or loss for the period

between the last day of the Plan Year and the date of distribution. The income or loss allocable for such period shall be equal to ten percent (10%) of the income or loss allocable to the distributable excess contributions for the applicable Plan Year multiplied by the number of whole calendar months that have elapsed since the end of the applicable Plan Year, including the month of distribution if distribution occurs after the fifteenth (15th) of such month.

- (d) **Accounting For Excess Contributions.** Excess contributions distributed under this Section 7.12.2 shall be treated as distributions from the Participant's Super Saver Account for the Plan Year.
- (e) **Special Family Member Rule.** If the deferral percentage of a highly compensated eligible employee is determined under Section 2.6.2(b)(ii), then the deferral percentage is reduced as required under rules prescribed by the Secretary of the Treasury, and the excess contributions for the family group shall be allocated among the family members in proportion to the retirement savings contributions of each family member that are combined to determine the deferral percentage. If the deferral percentage of a highly compensated eligible employee is determined under Section 2.6.2(b)(i), then the deferral percentage is reduced as required under rules prescribed by the Secretary of the Treasury, in two steps. First, the deferral percentage is reduced as required under rules prescribed by the Secretary of the Treasury, but not below the deferral percentage of the group of eligible family members who are not highly compensated eligible employees without regard to family aggregation. Excess contributions are determined by taking into account the contributions of the family members whose contributions were combined to determine the deferral percentage under Section 2.6.2(b)(i), and shall be allocated among such family members in proportion to each such family member's retirement savings contributions. If further reduction of the deferral percentage is required, excess contributions resulting from this reduction are determined by taking into account the contributions of all the eligible family members and are allocated among such family members in proportion to the retirement savings contributions of each family member.

**34. EXCESS AGGREGATE CONTRIBUTIONS.** Effective for Plan Years beginning on February 28, 1993 and for subsequent Plan Years, Section 7.12.3 of the Plan Statement shall be amended to read as follows:

**7.12.3. Excess Aggregate Contributions (Section 401(m) Test).**

- (a) **In General.** Notwithstanding any other provision of the Plan Statement, excess aggregate contributions, plus any income and minus any loss allocable thereto, shall be distributed no later than the last day of the following Plan Year to Participants to whose accounts Employer matching contributions, and if used to determine the contribution percentage under Section 3, elective contributions or qualified nonelective contributions (within the meaning of section 401(m)(4)(C) of the Code, or both, were allocated. Such distributions shall be made to highly compensated eligible employees (as defined in Section 3) on the basis of the respective portions of the excess aggregate contributions attributable to each of such employees.

- (b) **Excess Aggregate Contributions.** For purposes of this Section, "excess aggregate contributions" shall mean, with respect to any Plan Year, the excess of:
- (i) the aggregate amount of contributions taken into account in computing the average contribution percentage (as defined in Section 3) of highly compensated eligible employees (as defined in Section 3) for such Plan Year, over
  - (ii) the maximum amount of such contributions permitted by the section 401(m) test described in Section 3 (determined by reducing contributions made on behalf of the highly compensated eligible employees in order of the contribution percentage, as defined in Section 3, beginning with the highest such percentage).
- (c) **Determination Of Income.** The excess aggregate contributions shall be adjusted for income or loss. Unless the Committee and the Trustee agree otherwise in writing, the income or loss allocable to excess aggregate contributions shall be determined by multiplying the income or loss allocable to the Participant's Employer matching contributions (to the extent used to determine the eligible employee's contribution percentage under Section 3), and if used to determine an eligible employee's contribution percentage under Section 3, elective contributions or qualified nonelective contributions (within the meaning of section 401(m)(4)(C) of the Code), or both, for the Plan Year by a fraction, the numerator of which is the excess aggregate contributions on behalf of the Participant for the Plan Year and the denominator of which is the sum of the account balances attributable to Employer matching contributions and such elective contributions or qualified nonelective contributions, or both, on the last day of the Plan Year without regard to any income or loss occurring during such Plan Year.
- (d) **Accounting For Excess Aggregate Contributions.** Excess aggregate contributions shall be distributed from the Participant's Employer Matching Account (and, if applicable, the Participant's Super Saver Account or Employer Profit Sharing Account, or both) in proportion to the Participant's Employer matching contributions, and if used to determine the contribution percentage under Section 3, elective contributions or qualified nonelective contributions (within the meaning of section 401(m)(4)(C) of the Code), or both, for the Plan Year.
- (e) **Special Family Member Rule.** If the contribution percentage of a highly compensated eligible employee is determined under Section 3.11.2(b), then the contribution percentage is reduced as required under this Section and the excess aggregate contributions for the family group shall be allocated among the family members in proportion to the Employer matching contributions of each family member that are combined to determine the contribution percentage.
- (f) **Special Rule for Partial Vesting.** If the Participant is not fully (100%) Vested in the Employer Matching Account as of the last day of the Plan Year to which the excess aggregate contributions relate, then the distribution of the Participant's excess aggregate contributions under this Section shall be deemed to have been distributed from the fully (100%) Vested portion of the Employer Matching Account and such



Account shall become Vested in accordance with the special rule for partial distributions in Section 5.1.4. To the extent the excess aggregate contributions exceed the fully (100%) Vested portion of the Participant's Employer Matching Account, the excess aggregate contributions shall be forfeited and reallocated as provided in Section 6.2.

35. **PRIORITY.** Effective for Plan Years beginning on February 28, 1993 and for subsequent Plan Years, Section 7.12 of the Plan Statement shall be amended by adding a new Section 7.12.4 to read as follows:

7.12.4. **Priority.** The determination of the excess aggregate contributions shall be made after first determining the excess deferrals, and then determining the excess contributions. The amount of excess contributions shall be reduced by excess deferrals previously distributed to such Participant for the Participant's taxable year ending with or within such Plan Year.

36. **MATCHING CONTRIBUTIONS.** Effective for Plan Years beginning on February 28, 1993 and for subsequent Plan Years, Section 7.12. of the Plan Statement shall be amended by adding a new Section 7.12.5 to read as follows:

7.12.5. **Matching Contributions.** If excess deferrals, excess contributions or elective contributions treated as excess aggregate contributions are distributed pursuant to this Section 7.12, applicable matching contributions under Section 3.3 shall be treated as forfeitures and reallocated as if such forfeitures were an Employer matching contribution under Section 3.3 made for those Participants who were entitled to receive an Employer matching contribution for that Plan Year.

37. **SPENDTHRIFT PROVISIONS.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 8 of the Plan Statement is amended to read in full as follows:

No Participant or Beneficiary shall have any transmissible interest in any Account nor shall any Participant or Beneficiary have any power to anticipate, alienate, dispose of, pledge or encumber the same while in the possession or control of the Trustee, nor shall the Trustee, the Employer or the Retirement Committee recognize any assignment thereof, either in whole or in part, nor shall any Account be subject to attachment, garnishment, execution following judgment or other legal process while in the possession or control of the Trustee.

The power to designate Beneficiaries to receive the Vested Total Account of a Participant in the event of death shall not permit or be construed to permit such power or right to be exercised by the Participant so as thereby to anticipate, pledge, mortgage or encumber the Participant's Account or any part thereof, and any attempt of a Participant so to exercise said power in violation of this provision shall be of no force and effect and shall be disregarded by the Employer, the Retirement Committee and the Trustee.

This Section shall not prevent the Employer, the Retirement Committee or the Trustee from exercising, in their discretion, any of the applicable powers and options granted to them upon the occurrence of an Event of Maturity, as such powers may be conferred upon them by any applicable provision hereof, nor prevent the Plan from foreclosing on the lien granted to secure any and all loans made to a Participant or Beneficiary from the Fund. (In the event of a default on a loan made to a Participant or a Beneficiary, foreclosure on the promissory note and the attachment of the security interest in the Account will not occur until an Event of Maturity occurs with respect to such Participant.) This Section shall not prevent the Employer or the Trustee from

observing the terms of a qualified domestic relations order as provided in Appendix C to this Plan Statement.

**38. AMENDMENT.** Effective for any amendment made on or after February 28, 1993, Section 9.1 of the Plan Statement is amended by adding the following clause to the end of the Section:

; provided further than the allocation formula in section 3.3 shall not be amended more than once every six (6) months other than to comport with ERISA or the Code and the regulations and rulings thereunder.

**39. ADOPTION BY AFFILIATES.** Effective for any adoption of the Plan occurring on or after February 28, 1993, Section 9.4 of the Plan Statement is amended to read in full as follows:

**9.4. Adoption by Other Employers.**

**9.4.1. Adoption by Consent.** The Retirement Committee may consent to the adoption of the Plan by any business entity subject to such conditions as the Retirement Committee may impose.

**9.4.2. Procedure for Adoption.** Any such adopting business entity shall initiate its adoption of the Plan by delivery of a certified copy of the resolutions of its board of directors (or other authorized body or individual) adopting this Plan Statement to the Retirement Committee. Upon the consent by the Retirement Committee to the adoption by the adopting business entity, and the delivery to the Trustee of written evidence of the Retirement Committee's consent, the adoption of the Plan by the adopting business entity shall be effective as of the date specified by the Retirement Committee. If such adopting business entity is not a corporation, any reference in the Plan Statement to its board of directors shall be deemed to refer to such entity's governing body or other authorized individual.

**9.4.3. Effect of Adoption.** Upon the adoption of the Plan by an adopting business entity as heretofore provided, the adopting business entity shall be an Employer hereunder in all respects. Each adopting business entity, as a condition of continued participation in the Plan, delegates to the Principal Sponsor the sole power and authority over all Plan matters except that the board of directors of each adopting business entity shall have the power to amend this Plan Statement as applied to it by establishing a successor plan to which assets and liabilities may be transferred as provided in Section 9.3 and to terminate the Plan as applied to it. Each reference herein to the Employer shall include the Principal Sponsor and all adopting business entities unless the context clearly requires otherwise.

**40. CHANGE IN CONTROL.** Effective February 28, 1993, Section 9.5 of the Plan Statement shall be amended to read in full as follows:

**9.5. Change in Control.**

**9.5.1. Special Definitions.**

(a) For purposes of this Section 9.5, a "change in control" shall occur if:

- (i) individuals who, as of February 28, 1993, constitute the Board of Directors of ShopKo Stores, Inc. (the "incumbent board") cease for any reason to constitute at least a majority of such board; provided, however, that any person becoming a director subsequent to February 28, 1993, whose election, or nomination for election by the shareholders, was approved in advance by a vote of at least three-quarters (3/4) of the directors comprising

the incumbent board (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, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan Statement, considered as though such person were a member of the incumbent board; or

- (ii) 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 ShopKo Stores, Inc. or any of its wholly owned subsidiaries, or any employee benefit plan of ShopKo Stores, Inc. and/or any of its wholly owned subsidiaries, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) acquires twenty percent (20%) or more of either the then outstanding shares of common stock or the combined voting power of the then outstanding voting securities of ShopKo Stores, Inc. in a transaction or series of transactions not approved in advance by a vote of at least three-quarters (3/4) of the incumbent board; or
- (iii) the stockholders of ShopKo Stores, Inc. approve of a reorganization, merger, consolidation, liquidation or dissolution of ShopKo Stores, Inc. or of the sale (in one transaction or a series of related transactions) of all or substantially all of the assets of ShopKo Stores, Inc. other than a reorganization, merger, consolidation, liquidation, dissolution or sale approved in advance by three-quarters (3/4) of the incumbent board; or
- (iv) any other event occurs that a majority of the incumbent board, in its sole discretion, shall determine constitutes a change of control.

(b) For purposes of this Section 9.5, "cause" means:

- (i) an act or acts of personal dishonesty taken by a Participant and intended to result in substantial personal enrichment of the Participant at the expense of the Employer or an Affiliate, or
- (ii) repeated violations by the Participant of the Participant's obligations (if any) under any specific written agreement with the Employer or Affiliate which are demonstrably willful and deliberate on the Participant's part and which are not remedied after receipt of notice from the Employer, or
- (iii) the conviction of the Participant of a felony.

**9.5.2. Amendment.** Notwithstanding any other provision of the Plan Statement, during the five (5) years following a change in control, the provisions of the Plan Statement may not be amended if any amendment would adversely affect the rights, expectancies or benefits provided by the Plan (as in effect immediately prior to the change in control), of any Participant, Beneficiary or other person entitled to payments under the Plan.

**9.5.3. Vesting.** Notwithstanding any other provision of the Plan Statement, each person employed by the Employer or an Affiliate on the date of a change in control who terminates employment for any reason other than for cause during the two (2)

a "qualifying employer security" (within the meaning of section 407(d)(5) of ERISA) up to one hundred percent (100%) of the assets of the Plan.

45. **INDEMNITY.** Effective for any action taken on or after February 26, 1989, Section 10.12 of the Plan Statement shall be amended to read in full as follows:

10.12. **Indemnity.** Each individual (as distinguished from corporate) trustee of the Plan or officer, director or employee of the Employer 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 such individual with respect to the Plan, whether imposed under ERISA or otherwise, unless the liability, cost or expense arises from the individual's claim for his or her own benefit, the proven gross negligence, the bad faith or, if the individual had reasonable cause to believe his or her conduct was unlawful, the criminal misconduct of such individual. This indemnification shall continue as to an individual who has ceased to be a trustee of the Plan or officer, director or employee of the Employer and shall inure to the benefit of the heirs, executors and administrators of such an individual.

46. **EMPLOYER OR COMMITTEE.** Effective for instruments executed on or after February 28, 1993, Section 11.3.1 of the Plan Statement is amended by deleting therefrom the words "or the Administrative Committee."

47. **ELIMINATION OF ADMINISTRATIVE COMMITTEE.** Effective February 28, 1993, Section 11.5 of the Plan Statement is amended to read in full as follows:

11.5. **Information Furnished by Participants.** Neither the Employer nor the Retirement Committee nor the Trustee shall be liable or responsible for any error in the computation of the Account of a Participant resulting from any misstatement of fact made by the Participant, directly or indirectly, to the Employer, the Retirement Committee or the Trustee and used by them in determining the Participant's Account. Neither the Employer nor the Retirement Committee nor the Trustee shall be obligated or required to increase the Account of such Participant which, on discovery of the misstatement, is found to be understated as a result of such misstatement of the Participant. However, the Account of any Participant which is overstated by reason of any such misstatement shall be reduced to the amount appropriate for the Participant in view of the truth. Any refund received upon reduction of an Account so made shall be used to reduce the next succeeding contribution of the Employer to the Plan.

48. **CHIEF EXECUTIVE OFFICER.** Effective for any delegation occurring on or after February 28, 1993, Section 12.1.2 of the Plan Statement is amended to read in full as follows:

12.1.2. **Chief Executive Officer.** Except as hereinafter provided, the Chief Executive Officer of the Principal Sponsor may delegate or redelegate and allocate and reallocate to one or more persons or to a committee of persons jointly or severally, and whether or not such persons are directors, officers or employees, such functions assigned to the Principal Sponsor hereunder as the Chief Executive Officer may from time to time deem advisable.

49. **BOARD OF DIRECTORS.** Effective for actions taken on or after February 28, 1993, Section 12.1.3 of the Plan Statement is amended to read in full as follows:

12.1.3. **Board of Directors.** Notwithstanding the foregoing, the Board of Directors of the Principal Sponsor shall have the exclusive authority, which may not be delegated, to act for the Principal Sponsor:

- (a) to terminate the Plan,

years following a change in control shall be fully (100%) Vested in all benefits accrued under this Plan.

**9.5.4. Not Amendable.** Notwithstanding any other provisions of the Plan Statement, this Section 9.5 may not be amended to decrease any of the benefits which it provides during the five (5) years following a change in control without the affirmative written consent of a majority in both number and interest of the Participants actively employed on the date of the change in control.

**41. ACCOUNTINGS BY TRUSTEE.** Effective for the Plan Year beginning on February 28, 1993 and for subsequent Plan Years, Section 10.4.1 and Section 10.4.2 of the Plan Statement are amended to read in full as follows:

**10.4.1. Periodic Reports.** The Trustee shall render to the Retirement Committee an account and report within ninety (90) days after each Annual Valuation Date (and as soon as may be practicable after each other Valuation Date) showing all transactions affecting the administration of the Plan and the Fund, including, but not necessarily limited to, such information concerning the Plan and the Fund and the administration thereof by the Trustee as shall be requested in writing by the Retirement Committee.

**10.4.2. Special Reports.** The Trustee shall also render such further reports from time to time as may be requested by the Retirement Committee and shall submit its final report and account to the Retirement Committee when it shall cease to be Trustee hereunder, whether by resignation or other cause.

**42. OTHER TRUST POWERS.** Effective for any action taken on or after February 28, 1993, Section 10.6(h) of the Plan Statement shall be amended by adding to the end thereto the following sentence:

Furthermore, neither the Trustee nor the Investment Manager, as the case may be, shall vote or take similar actions with respect to any security in which it may have an interest, direct or indirect. In such case, the Trustee or the Investment Manager shall notify the Principal Sponsor and the Principal Sponsor shall direct the Trustee or the Investment Manager with respect to such voting or similar action.

**43. RELATION TO OTHER FIDUCIARIES.** Effective February 28, 1993, Section 10.7.3 of the Plan Statement shall be amended to read in full as follows:

**10.7.3. Relation to Other Fiduciaries.** The Trustee shall comply with all investment directions given to the Trustee with respect to the designated portion of the Fund, and the Trustee shall be released and exonerated of and from all liability for or on account of any action taken or not taken by it pursuant to the directions of such Investment Manager, except to the extent that liability is imposed under ERISA. Neither the Employer or any of its officers, directors or employees nor any member of the Retirement Committee shall be liable for the acts or omissions of the Trustee or of any Investment Manager appointed hereunder. The fees and expenses of any Investment Manager, as agreed upon from time to time between the Investment Manager and the Employer, shall be charged to and paid from the Fund in a fair and equitable manner, except to the extent that the Employer, in its discretion, may pay such directly to the Investment Manager.

**44. EMPLOYER SECURITIES.** Effective for Plan Years beginning on and after February 28, 1993, Section 10.9 of the Plan Statement is amended to read in full as follows:

**10.9. Investment in Employer Securities.** Notwithstanding any other provision of this Plan Statement, the Plan may acquire or hold stock of ShopKo Stores, Inc. which is

- (b) to appoint or remove members of the Committee;
- (c) to determine the Employer contribution under Section 3; to reduce, suspend or discontinue contributions to the Plan.

50. **RETIREMENT COMMITTEE.** Effective October 21, 1992, Section 12.2 of the Plan Statement is amended to read in full as follows:

**12.2. Committee.**

**12.2.1. Appointment and Removal.** The Committee shall consist of such members as may be determined and appointed from time to time by the Board of Directors of the Principal Sponsor and they shall serve at the pleasure of such Board of Directors. Members of the Committee shall serve without compensation, but their reasonable expenses shall be an expense of the administration of the Fund and shall be paid by the Trustee from and out of the Fund except to the extent the Employer, in its discretion, directly pays such expenses.

**12.2.2. Automatic Removal.** If any individual who is a member of the Committee is a director, officer or employee when appointed as a member of the Committee, then such individual shall be automatically removed as a member of the Committee at the earliest time such individual ceases to be a director, officer or employee. This removal shall occur automatically and without any requirement for action by the Board of Directors of the Principal Sponsor or any notice to the individual so removed.

**12.2.3. Authority.** The Committee may elect such officers as the Committee may decide upon. The Committee shall:

- (a) establish rules for the functioning of the Committee, including the times and places for holding meetings, the notices to be given in respect of such meetings and the number of members who shall constitute a quorum for the transaction of business.
- (b) organize and delegate to such of its members as it shall select authority to execute or authenticate rules, advisory opinions or instructions, and other instruments adopted or authorized by the Committee; adopt such bylaws or regulations as it deems desirable for the conduct of its affairs; appoint a secretary, who need not be a member of the Committee, to keep its records and otherwise assist the Committee in the performance of its duties; keep a record of all its proceedings and acts and keep all books of account, records and other data as may be necessary for the proper administration of the Plan; notify the Employer and the Trustee of any action taken by the Committee and, when required, notify any other interested person or persons.
- (c) determine from the records of the Employer the compensation, service records, status and other facts regarding Participants and other employees.
- (d) cause to be compiled at least annually, from the records of the Committee and the reports and accountings of the Trustee, a report or accounting of the status of the Plan and the Accounts of the Participants, and make it available to each Participant who shall have the right to examine that part of such report or accounting (or a true and correct copy of such part) which sets forth the Participant's benefits and ratable interest in the Fund.

- (e) prescribe forms to be used for applications for participation, benefits, notifications, etc., as may be required in the administration of the Plan,
- (f) set up such rules as are deemed necessary to carry out the terms of this Plan Statement,
- (g) resolve all questions of administration of the Plan not specifically referred to in this Section,
- (h) delegate or redelegate to one or more persons, jointly or severally, and whether or not such persons are members of the Committee or employees of the Employer, such functions assigned to the Committee hereunder as it may from time to time deem advisable,
- (i) perform all other acts reasonably necessary for administering the Plan and carrying out the provisions of this Plan Statement and performing the duties imposed on it,
- (j) have the authority to appoint or remove a Trustee or accept the resignation of a Trustee, and
- (k) have the authority to appoint or remove an Investment Manager.

**12.2.4. Majority Decisions.** If there shall at any time be three (3) or more members of the Committee serving hereunder who are qualified to perform a particular act, the same may be performed, on behalf of all, by a majority of those qualified, with or without the concurrence of the minority. No person who failed to join or concur in such act shall be held liable for the consequences thereof, except to the extent that liability is imposed under ERISA.

**51. TRUSTEE.** Effective February 28, 1993, Section 12.3.2 of the Plan Statement shall be amended to read in full as follows:

**12.3.2. Trustee.** The responsibilities and obligations of the Trustee shall be strictly limited to those set forth in this Plan Statement. The Trustee shall have no authority or duty to determine or enforce payment of any Employer contribution under the Plan or to determine the existence, nature or extent of any individual's rights in the Fund or under the Plan or question any determination made by the Principal Sponsor or the Retirement Committee regarding the same. Nor shall the Trustee be responsible in any way for the manner in which the Principal Sponsor, the Employer or the Retirement Committee carries out its responsibilities under this Plan Statement or, more generally, under the Plan. The Trustee shall give the Principal Sponsor notice of (and tender to the Principal Sponsor) the prosecution or defense of any litigation involving the Plan, the Fund or other fiduciaries of the Plan.

**52. TRUSTEE.** Effective February 28, 1993, Section 12.4 of the Plan Statement shall be amended to read in full as follows:

**12.4. Conflict of Interest.** If any officer or employee of the Employer, any member of the board of directors of the Employer, any member of the Retirement Committee or any Trustee to whom authority has been delegated or redelegated hereunder shall also be a Participant or Beneficiary in the Plan, the individual shall have no authority as such officer, employee, member or Trustee with respect to any matter specially affecting his or her individual interest hereunder (as distinguished from the interests of all Participants and Beneficiaries or a broad class of Participants and Beneficiaries), all such authority being reserved exclusively to the other officers, employees, members or

Trustees as the case may be, to the exclusion of such Participant or Beneficiary, and such Participant or Beneficiary shall act only in his or her individual capacity in connection with any such matter.

53. **NAMED FIDUCIARIES.** Effective February 28, 1993, Section 12.7 of the Plan Statement shall be amended to read in full as follows:

12.7. **Named Fiduciaries.** The Employer, the officers of the Principal Sponsor, the Retirement Committee and the Trustee shall be named fiduciaries for the purpose of section 402(a) of ERISA.

54. **SOLE SOURCE OF BENEFITS.** Effective February 28, 1993, Section 13.1.2 of the Plan Statement is amended by deleting therefrom the words "Administrative Committee nor".

55. **CO-FIDUCIARY MATTERS.** Effective February 28, 1993, Section 13.1.3 is amended to read in full as follows:

13.1.3. **Co-Fiduciary Matters.** Neither the Employer nor any of its officers nor any member of its board of directors nor any member of the Retirement Committee shall in any manner be liable to any Participant, Beneficiary or other person for any act or omission of the Trustee (except to the extent that liability is imposed under ERISA). Neither the Employer nor any of its officers nor any member of its board of directors nor any member of the Retirement Committee or the Trustee shall be under any liability or responsibility (except to the extent that liability is imposed under ERISA) for failure to effect any of the objectives or purposes of the Plan by reason of loss or fluctuation in the value of Fund or for the form, genuineness, validity, sufficiency or effect of any Fund asset at any time held hereunder, or for the failure of any person, firm or corporation indebted to the Fund to pay such indebtedness as and when the same shall become due or for any delay occasioned by reason of any applicable law, order or regulation or by reason of any restriction or provision contained in any security or other asset held by the Fund. Except as is otherwise provided in ERISA, the Employer and its officers, the members of its board of directors and the members of the Retirement Committee, the Trustee and other fiduciaries shall not be liable for an act or omission of another person with regard to a fiduciary responsibility that has been allocated to or delegated to such other person pursuant to the terms of this Plan Statement or pursuant to procedures set forth in this Plan Statement.

56. **SCHEDULE I.** Effective February 28, 1993, Schedule I to this Plan Statement is amended by substituting the Schedule I attached to this Amendment.

57. **SCHEDULE II.** Effective February 28, 1993, Schedule II shall be deleted.

58. **NEW APPENDIX A.** Effective February 28, 1993, the Appendix A to this Plan Statement is amended by substituting the Appendix A attached to this Amendment.

59. **NEW APPENDIX B.** Effective February 28, 1993, the Appendix B to this Plan Statement is amended by substituting the Appendix B attached to this Amendment.

60. **NEW APPENDIX C.** Effective February 28, 1993, the Appendix C to this Plan Statement is amended by substituting the Appendix C attached to this Amendment.

61. **NEW APPENDIX D.** Effective February 28, 1993, the Appendix D to this Plan Statement is amended by substituting the Appendix D attached to this Amendment.



62. **FULL VESTING.** Effective February 24, 1990, each of the following Participants (who is not a highly compensated employee as defined in Appendix D to the Plan Statement) is fully (100%) vested in the Participant's Profit Sharing Account:

Jan Christensen	397-56-3756
Patti Clak	022-38-9368
Colleen Head	508-74-0825
Jim Hopkins	391-70-7542
Diane LeGrave	394-78-7265
Lisa Server	263-91-0293

63. **FULL VESTING.** Effective February 24, 1991, each of the following Participants (who is not a highly compensated employee as defined in Appendix D to the Plan Statement) is fully vested in the Participant's Profit Sharing Account:

Beyer, Barbara	393580871
Byrnes, Janice	396921924
Erickson, Jacqueline	346521801
Gevaert, Sharon	391742964
Gierke, Donna	397567976
Matzke, Linda	393468013
Peterson, Margaret	385501537
Steffens, Diane	530669473
Vieau, Marueen	378841284
Zuber, Carol	387447177
Blahnik, Linda	399468309
Reindl, Sharon	394501827
Schneider, Sara	393826336
Berna, Christine	389787267
Filipiak, Tammy	397883631
McClellan, Karen	392382587
Singkofer, Lisa	397884027
Fleischfresser, Patricia	390869344
Lachowicz, Vicki	399320638
Keating, Peggy	395585206
Morris, Bonnie	393787408
Peterson, Edna	202242423
Bartel, Peggy	389740825
Fritz, Cheryl	387840535
Ransom, Mary	399748962
Young, Linda	396761731
Heffernan, Constance	475565599
Phillipson, Kristen	399802276
Stencil, Brenda	391605626
Baird Jr., Roy	483506124
Mathen, Jane	392949805
Seidel, Barbara	397342191
Schoafinski, William	397265969
Wielgus, Mary	390449497
Merrill, Robert	390545524

64. **SAVINGS CLAUSE.** Save and except as hereinabove expressly amended, the Plan Statement shall continue in full force and effect.

IN WITNESS WHEREOF. Each of the parties hereto has caused these presents to be executed, all as of the day and year first above written.

BANK ONE WISCONSIN TRUST  
COMPANY, NA

SHOPKO STORES, INC.

By John A. Anderson  
Its Trust Officer

By David A. Kieberger  
Its Vice President of Human  
Resources / Secretary

And Gary T. Armstrong  
Its A.V.P.

And Leimene J. Clark  
Its Vice President of Finance  
and Distribution

**SCHEDULE I  
TO  
SHOPKO STORES, INC. PROFIT SHARING  
AND SUPER SAVER PLAN**

Participating Employers  
As of February 28, 1993

	<u>Employer</u>	<u>EIN</u>
1.	ShopKo Stores, Inc.	41-0985054
2.	ShopKo Pharmacies, Inc.	39-1153072
3.	SVS Trucking	41-1400592

**APPENDIX A**  
**LIMITATION ON BENEFITS**

**SECTION 1**

**INTRODUCTION**

Terms defined in the Plan Statement shall have the same meanings when used in this Appendix. In addition, when used in this Appendix, the following terms shall have the following meanings:

**1.1. Annual Addition.** Annual addition means, with respect to any Participant for a limitation year, the sum of:

- (i) all employer contributions (including employer contributions of the Participant's earnings reductions under section 401(k), section 403(b) and section 408(k) of the Code) allocable as of a date during such limitation year to the Participant under all defined contribution plans;
- (ii) all forfeitures allocable as of a date during such limitation year to the Participant under all defined contribution plans; and
- (iii) all Participant contributions made as of a date during such limitation year to all defined contribution plans.

**1.1.1. Specific Inclusions.** With regard to a plan which contains a qualified cash or deferred arrangement or matching contributions or employee contributions, excess deferrals and excess contributions and excess aggregate contributions (whether or not distributed during or after the limitation year) shall be considered annual additions in the year contributed.

**1.1.2. Specific Exclusions.** The annual addition shall not, however, include any portion of a Participant's rollover contributions or any additions to accounts attributable to a plan merger or a transfer of plan assets or liabilities or any other amounts excludable under law.

**1.1.3. ESOP Rules.** In the case of an employee stock ownership plan within the meaning of section 4975(e)(7) of the Code, annual additions shall not include any dividends or gains on sale of employer securities held by the employee stock ownership plan (regardless of whether such dividends or gains are (i) on securities which are allocated to Participants' accounts or (ii) on securities which are not allocated to Participants' accounts which, in the case of dividends used to pay principal on an employee stock ownership plan loan, result in employer securities being allocated to Participants' accounts or, in the case of a sale, result in sale proceeds being allocated to Participants' accounts). In the case of an employee stock ownership plan under which no more than one-third (1/3rd) of the employer contributions for a limitation year which are deductible under section 404(a)(9) of the Code are allocated to highly compensated employees (as defined in section 414(q) of the Code), annual additions shall not include forfeitures of employer securities under the employee stock ownership plan if such securities were acquired with the proceeds of an exempt loan or employer contributions to the employee stock ownership plan which are deductible by the employer under section 404(a)(9)(B) of the Code and charged against the Participant's account (i.e., interest payments).

**1.2. Annual Benefit.** Annual benefit means a retirement benefit under a defined benefit plan which is payable annually in the form of a straight life annuity.

**1.2.1. Straight Life Annuity.** Except as provided below, a benefit payable in a form other than a straight life annuity will be adjusted to the actuarial equivalent straight life annuity before applying the limitations of this Appendix. To determine this actuarial equivalent, the interest rate assumption shall be the greater of the interest rate specified in the defined benefit plan's plan document or five percent (5%) and the mortality assumption shall be that specified in the defined benefit plan's plan document.

**1.2.2. Excluded Contributions.** The annual benefit does not include any benefits attributable to employee contributions, rollover contributions or the assets transferred from a qualified plan that was not maintained by a controlled group member.

**1.2.3. Ancillary Benefits.** No actuarial adjustment to the annual benefit is required for: (i) the value of a qualified joint and survivor annuity (to the extent such value exceeds the sum of the value of a straight life annuity beginning on the same date and the value of post-retirement death benefits that would be paid even if the annuity were not in the form of a joint and survivor annuity), or (ii) the value of benefits that are not directly related to retirement benefits (such as a pre-retirement disability benefit, a pre-retirement death benefit or a post-retirement medical benefit), or (iii) the value of post-retirement cost-of-living increases made in accordance with regulations under the Code.

**1.3. Controlled Group Member.** Controlled group member means the Employer and each member of a controlled group of corporations (as defined in section 414(b) of the Code and as modified by section 415(h) of the Code), all commonly controlled trades or businesses (as defined in section 414(c) of the Code and as modified by section 415(h) of the Code), affiliated service groups (as defined in section 414(m) of the Code) of which the Employer is a part and other organizations required to be aggregated for this purpose under section 414(o) of the Code.

**1.4. Defined Benefit and Defined Contribution Plans.** Defined benefit plan and defined contribution plan have the meanings assigned to those terms by section 415(k)(1) of the Code. Whenever reference is made to defined benefit plans and defined contribution plans in this Appendix, it shall include all such plans maintained by the Employer and all controlled group members.

**1.5. Defined Benefit Fraction.**

**1.5.1. General Rule.** Defined benefit fraction means a fraction the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans determined as of the close of the limitation year, and the denominator of which is the lesser of:

- (i) one hundred twenty-five percent (125%) of the dollar limitation in effect under section 415(b)(1)(A) of the Code as of the close of such limitation year (i.e., 125% of \$90,000 as adjusted for cost of living, commencement dates, length of service and other factors), or
- (ii) one hundred forty percent (140%) of the dollar amount which may be taken into account under section 415(b)(1)(B) of the Code with respect to such Participant as of the close of such limitation year (i.e., 140% of the Participant's highest average compensation as adjusted for cost of living, length of service and other factors).

**1.5.2. Transition Rule.** Notwithstanding the above, if the Participant was a participant as of the first day of the first limitation year beginning after December 31, 1986,

in one or more defined benefit plans which were in existence on May 6, 1986, the denominator of this fraction will not be less than one hundred twenty-five percent (125%) of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last limitation year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of section 415 of the Code for all limitation years beginning before January 1, 1987.

#### **1.6. Defined Contribution Fraction.**

**1.6.1. General Rule.** Defined contribution fraction means a fraction the numerator of which is the sum of the Participant's annual additions (including Employer contributions which are allocated to a separate account established for the purpose of providing medical benefits or life insurance benefits with respect to a key employee (as defined in Appendix B) under a welfare benefit fund or individual medical account) as of the close of the limitation year and for all prior limitation years, and the denominator of which is the sum of the amounts determined under paragraph (i) or (ii) below, whichever is the lesser, for such limitation year and for each prior limitation year in which the Participant had any service with the employer (regardless of whether that or any other defined contribution plan was in existence during those years or continues in existence):

- (i) one hundred twenty-five percent (125%) of the dollar limitation in effect under section 415(c)(1)(A) of the Code for such limitation year determined without regard to section 415(c)(6) of the Code (i.e., 125% of \$30,000 as adjusted for cost-of-living), or
- (ii) one hundred forty percent (140%) of the dollar amount which may be taken into account under section 415(c)(1)(B) of the Code with respect to such individual under the Plan for such limitation year (i.e., 140% of 25% of the Participant's § 415 compensation for such limitation year).

**1.6.2. TEFRA Transition Rule.** The Employer may elect that the amount taken into account for each Participant for all limitation years ending before January 1, 1983, under Section 1.6.1(i) and Section 1.6.1(ii) shall be determined pursuant to the special transition rule provided in section 415(e)(6) of the Code.

**1.6.3. Employee Contributions.** Notwithstanding the definition of "annual additions", for the purpose of determining the defined contribution fraction in limitation years beginning before January 1, 1987, employee contributions shall not be taken into account to the extent that they were not required to be taken into account under section 415 of the Code prior to the Tax Reform Act of 1986.

**1.6.4. Annual Denominator.** The amounts to be determined under Section 1.6.1(i) and Section 1.6.1(ii) for the limitation year and for all prior limitation years in which the Participant had any service with the employer shall be determined separately for each such limitation year on the basis of which amount is the lesser for each such limitation year.

**1.6.5. Relevant Law.** For all limitation years ending before January 1, 1976, the dollar limitation under section 415(c)(1)(A) of the Code is Twenty-five Thousand Dollars (\$25,000). For limitation years ending after December 31, 1975, and before January 1, 1993, the amount shall be:

For limitation years  
ending during:

The § 415(c)(1)(A)  
dollar amount is:

1976	\$26,825
1977	\$28,175
1978	\$30,050
1979	\$32,700
1980	\$36,875
1981	\$41,500
1982	\$45,475
1983-1992	\$30,000

**1.6.6. Relief Rule.** If the Participant was a participant as of the end of the first day of the first limitation year beginning after December 31, 1986, in one or more defined contribution plans which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed one (1.0) under the terms of this Plan Statement. Under the adjustment, an amount equal to the product of the excess of the sum of the fractions over one (1.0), times the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last limitation year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the plan made after May 6, 1986, but using the section 415 limitations applicable to the first limitation year beginning on or after January 1, 1987.

**1.7. Highest Average Compensation.** Highest average compensation means the average § 415 compensation for the three (3) consecutive years of service with the controlled group members that produce the highest average. A year of service with the controlled group members is the Plan Year.

**1.8. Individual Medical Account.** Individual medical account means an account, as defined in section 415(1)(2) of the Code maintained by the Employer or a controlled group member which provides an annual addition.

**1.9. Limitation Year.** The limitation year shall be the Plan Year.

**1.10. Maximum Permissible Benefit.**

**1.10.1. General Rule.** The maximum permissible annual benefit is the lesser of:

- (i) Ninety Thousand Dollars (\$90,000), or
- (ii) the Participant's highest average compensation.

**1.10.2. Early Commencement.** If the annual benefit commences before the social security retirement age, the maximum permissible benefit may not exceed the lesser of the actuarial equivalent of a Ninety Thousand Dollar (\$90,000) annual benefit beginning at the social security retirement age or the Participant's highest average compensation. To determine this actuarial equivalent, the interest rate assumption shall be the greater of the rate specified in the Appendix C to the Plan Statement or five percent (5%) and the mortality assumption shall be that specified in the Appendix C to the Plan Statement.

**1.10.3. Late Commencement.** If the annual benefit commences after the social security retirement age, the benefit may not exceed the lesser of the actuarial equivalent of a Ninety Thousand Dollar (\$90,000) annual benefit beginning at the social security retirement age or the Participant's highest average compensation. To determine this actuarial equivalent, the interest rate assumption shall be the lesser of the rate specified in the Appendix C to the

Plan Statement or five percent (5%) and the mortality assumption shall be that specified in the Appendix C to the Plan Statement.

**1.10.4. Cost-of-Living Adjustments.** Effective on January 1, 1988, and each January 1 thereafter, the Ninety Thousand Dollar (\$90,000) limit and the highest average compensation limit (for Participants who have separated from service) shall be adjusted automatically for increases in the cost of living by the Secretary of the Treasury. The new amounts will apply to limitation years ending within such calendar year.

**1.10.5. Participation Reduction.** If a Participant has less than ten (10) years of participation in the Plan, the Ninety Thousand Dollar (\$90,000) limit otherwise defined and adjusted above (but not the highest average compensation limit) shall be reduced to an amount equal to ninety thousand dollars (\$90,000) as otherwise defined and adjusted above multiplied by a fraction:

- (i) the numerator of which is the number of years (and part thereof) of participation, and
- (ii) the denominator of which is ten (10).

**1.10.6. Service Reduction.** If a Participant has less than ten (10) years of service with the controlled group members, the highest average compensation limit otherwise defined and adjusted above (but not the Ninety Thousand Dollar limit) shall be reduced to an amount equal to the highest average compensation limit as otherwise defined and adjusted above multiplied by a fraction:

- (i) the numerator of which is the number of years (and part thereof) of service, and
- (ii) the denominator of which is ten (10).

**1.11. Projected Annual Benefit.** Projected annual benefit means the annual benefit payable to the Participant at his or her normal retirement age (as defined in the defined benefit plan) adjusted to an actuarially equivalent straight life annuity form (or, if it would be a lesser amount, to any actuarially equivalent qualified joint and survivor annuity form that is available under the defined benefit plan) assuming that:

- (i) the Participant continues employment and participation under the defined benefit plan until his or her normal retirement age (as defined in the defined benefit plan) or, if later, until his or her current age, and
- (ii) the Participant's § 415 compensation and all other factors used to determine annual benefits under the defined benefit plan remain unchanged for all future limitation years.

**1.12. Section 415 Compensation.** Section 415 compensation (sometimes, "§ 415 compensation") shall mean, with respect to any limitation year, wages within the meaning of section 3401(a) of the Code (for purposes of income tax withholding at the source) but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Code). For limitation years beginning after December 31, 1991, § 415 compensation shall be determined on a cash basis.

**1.13. Social Security Retirement Age.** Social security retirement age means the age used as retirement age under section 216(f) of the Social Security Act except that such section shall



be applied (i) without regard to the age increase factor, and (ii) as if the early retirement age under section 216(1)(2) of the Social Security Act were age sixty-two (62) years.

1.14. **Welfare Benefit Fund.** Welfare benefit fund means a fund as defined in section 419(e) of the Code which provides post-retirement medical benefits allocated to separate accounts for key employees as defined in section 419A(d)(3).

## **SECTION 2**

### **DEFINED BENEFIT LIMITATION**

Notwithstanding anything to the contrary contained in the Plan Statement, there shall not be accrued for the benefit of any Participant for any limitation year an amount which would cause the annual benefit for such Participant to exceed the maximum permissible benefit.

## **SECTION 3**

### **COMBINED PLANS LIMITATION**

Notwithstanding anything to the contrary contained in the Plan Statement, if the Participant participates in both a defined benefit plan and a defined contribution plan, the sum of the defined benefit fraction and the defined contribution fraction shall not exceed one (1) at the close of any limitation year.

## **SECTION 4**

### **REMEDIAL ACTION**

4.1. **Defined Benefit Plans Only.** If the Participant's annual benefit would exceed the maximum permissible benefit, the Plan shall cease the accrual of benefits or reduce benefits previously accrued so that such annual benefit shall not exceed the maximum permissible amount. It is specifically intended that such remedial action as may be necessary to prevent an annual benefit from exceeding the maximum permissible amount in a limitation year shall be made in defined benefit plans as follows:

- (i) if the Participant is accruing benefits in only this Plan during such limitation year, all such cessations and reductions shall be made in this Plan; and
- (ii) to the extent that such cessations and reductions are not adequate and the Participant has accrued benefits in one or more other defined benefit plans in earlier limitation years, such cessations and reduction of accrued benefits under other plans shall be made in chronological order as determined by the effective date of each plan (using the original effective date of the plan) beginning with the most recently established plan; and
- (iii) if the Participant is concurrently accruing benefits in this Plan and one or more other defined benefit plans during such limitation year, such cessations and reductions of accrued benefits under this Plan and all other plans shall be made in chronological order as determined by the effective date of each plan (using the original effective date of the plan) beginning with the most recently established plan.

**4.2. Combined Defined Benefit and Defined Contribution Plans.** If the combination of benefits under all defined contribution plans and all defined benefit plans would exceed the limits described above which are applicable to a combination of defined benefit and defined contribution plans, then such Participant shall not be entitled to the accrual of any benefits under such defined benefit plans to the extent it would cause such combination of plans to exceed the limits hereinabove described. If such reduction or curtailment of the accrual of future benefits under the defined benefit plans and the cancellation of previously accrued benefits is not adequate to eliminate an excess under the combination-of-plans rule, then annual additions to the defined contribution plans shall be reduced. It is specifically intended that the Employer shall cause the reduction or elimination of future accruals and the cancellation of previously accrued benefits under all defined benefit plans (other than terminated defined benefit plans) to occur in the sequence specified in Section 4.1 before any reduction of annual additions to defined contribution plans.

## **APPENDIX B**

### **CONTINGENT TOP HEAVY PLAN RULES**

Notwithstanding any of the foregoing provisions of the Plan Statement, if, after applying the special definitions set forth in Section 1 of this Appendix, this Plan is determined under Section 2 of this Appendix to be a top heavy plan for a Plan Year, then the special rules set forth in Section 3 of this Appendix shall apply. For so long as this Plan is not determined to be a top heavy plan, the special rules in Section 3 of this Appendix shall be inapplicable to this Plan.

#### **SECTION 1**

##### **SPECIAL DEFINITIONS**

Terms defined in the Plan Statement shall have the same meanings when used in this Appendix. In addition, when used in this Appendix, the following terms shall have the following meanings:

**1.1. Aggregated Employers.** Aggregated employers means the Employer and each other corporation, partnership or proprietorship which is a "predecessor" to the Employer, or is under "common control" with the Employer, or is a member of an "affiliated service group" that includes the Employer, as those terms are defined in section 414(b), (c), (m) or (o) of the Code.

**1.2. Aggregation Group.** Aggregation group means a grouping of this Plan and:

- (a) if any Participant in the Plan is a key employee, each other qualified pension, profit sharing or stock bonus plan of the aggregated employers in which a key employee is a Participant (and for this purpose, a key employee shall be considered a Participant only during periods when he is actually accruing benefits and not during periods when he has preserved accrued benefits attributable to periods of participation when he was not a key employee), and
- (b) each other qualified pension, profit sharing or stock bonus plan of the aggregated employers which is required to be taken into account for this Plan or any plan described in paragraph (a) above to satisfy the qualification requirements under section 410 or section 401(a)(4) of the Code, and
- (c) each other qualified pension, profit sharing or stock bonus plan of the aggregated employers which is not included in paragraph (a) or (b) above, but which the Employer elects to include in the aggregation group and which, when included, would not cause the aggregation group to fail to satisfy the qualification requirements under section 410 or section 401(a)(4) of the Code.

**1.3. Compensation.** Unless the context clearly requires otherwise, compensation means wages within the meaning of section 3401(a) of the Code (for purposes of income tax withholding at the source) but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Code), but limited to Two Hundred Thousand Dollars adjusted annually as provided in section 401(a)(17) of the Code. Compensation shall be determined on a cash basis.

**1.4. Determination Date.** Determination date means, for the first (1st) Plan Year of a plan, the last day of such first (1st) Plan Year, and for each subsequent Plan Year, the last day of the immediately preceding Plan Year.

**1.5. Five Percent Owner.** Five percent owner means for each aggregated employer that is a corporation, any person who owns (or is considered to own within the meaning of the shareholder attribution rules) more than five percent (5%) of the value of the outstanding stock of the corporation or stock possessing more than five percent (5%) of the total combined voting power of the corporation, and, for each aggregated employer that is not a corporation, any person who owns more than five percent (5%) of the capital interest or the profits interest in such aggregated employer. For the purposes of determining ownership percentages, each corporation, partnership and proprietorship otherwise required to be aggregated shall be viewed as a separate entity.

**1.6. Key Employee.** Key employee means each Participant (whether or not then an employee) who at any time during a Plan Year (or any of the four preceding Plan Years) is:

- (a) an officer of any aggregated employer (excluding persons who have the title of an officer but not the authority and including persons who have the authority of an officer but not the title) having an annual compensation from all aggregated employers for any such Plan Year in excess of fifty percent (50%) of the amount in effect under section 415(b)(1)(A) of the Code for any such Plan Year, or
- (b) one (1) of the ten (10) employees (not necessarily Participants) owning (or considered to own within the meaning of the shareholder attribution rules) both more than one-half of one percent (1/2%) ownership interest in value and the largest percentage ownership interests in value of any of the aggregated employers (which are owned by employees) and who has an annual compensation from all the aggregated employers in excess of the limitation in effect under section 415(c)(1)(A) of the Code for any such Plan Year, or
- (c) a five percent owner, or
- (d) a one percent owner having an annual compensation from the aggregated employers of more than One Hundred Fifty Thousand Dollars (\$150,000);

provided, however, that no more than fifty (50) employees (or, if lesser, the greater of three of all the aggregated employers' employees or ten percent of all the aggregated employers' employees) shall be treated as officers. For the purposes of determining ownership percentages, each corporation, partnership and proprietorship otherwise required to be aggregated shall be viewed as a separate entity. For purposes of paragraph (b) above, if two (2) employees have the same interest in any of the aggregated employers, the employee having the greatest annual compensation from that aggregated employer shall be treated as having a larger interest. For the purpose of determining compensation, however, all compensation received from all aggregated employers shall be taken into account. The term "key employee" shall include the beneficiaries of a deceased key employee.

**1.7. One Percent Owner.** One percent owner means, for each aggregated employer that is a corporation, any person who owns (or is considered to own within the meaning of the shareholder attribution rules) more than one percent (1%) of the value of the outstanding stock of the corporation or stock possessing more than one percent (1%) of the total combined voting power of the corporation, and, for each aggregated employer that is not a corporation, any person who owns more than one percent (1%) of the capital or the profits interest in such aggregated employer. For the purposes of determining ownership percentages, each corporation, partnership and proprietorship otherwise required to be aggregated shall be viewed as a separate entity.

**1.8. Shareholder Attribution Rules.** Shareholder attribution rules means the rules of section 318 of the Code, (except that subparagraph (C) of section 318(a)(2) of the Code shall be applied by substituting "5 percent" for "50 percent") or, if the Employer is not a corporation, the rules determining ownership in such Employer which shall be set forth in regulations prescribed by the Secretary of the Treasury.

**1.9. Top Heavy Aggregation Group.** Top heavy aggregation group means any aggregation group for which, as of the determination date, the sum of:

- (i) the present value of the cumulative accrued benefits for key employees under all defined benefit plans included in such aggregation group, and
- (ii) the aggregate of the accounts of key employees under all defined contribution plans included in such aggregation group,

exceed sixty percent (60%) of a similar sum determined for all employees. In applying the foregoing, the following rules shall be observed:

- (a) For the purpose of determining the present value of the cumulative accrued benefit for any employee under a defined benefit plan, or the amount of the account of any employee under a defined contribution plan, such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the five (5) year period ending on the determination date.
- (b) Any rollover contribution (or similar transfer) initiated by the employee, made from a plan maintained by one employer to a plan maintained by another employer and made after December 31, 1983, to a plan shall not be taken into account with respect to the transferee plan for the purpose of determining whether such transferee plan is a top heavy plan (or whether any aggregation group which includes such plan is a top heavy aggregation group). Any rollover contribution (or similar transfer) not described in the preceding sentence shall be taken into account with respect to the transferee plan for the purpose of determining whether such transferee plan is a top heavy plan (or whether any aggregation group which includes such plan is a top heavy aggregation group).
- (c) If any individual is not a key employee with respect to a plan for any Plan Year, but such individual was a key employee with respect to a plan for any prior Plan Year, the cumulative accrued benefit of such employee and the account of such employee shall not be taken into account.
- (d) The determination of whether a plan is a top heavy plan shall be made once for each Plan Year of the plan as of the determination date for that Plan Year.
- (e) In determining the present value of the cumulative accrued benefits of employees under a defined benefit plan, the determination shall be made as of the actuarial valuation date last occurring during the twelve (12) months preceding the determination date and shall be determined on the assumption that the employees terminated employment on the valuation date except as provided in section 416 of the Code and the regulations thereunder for the first and second Plan Years of a defined benefit plan. The accrued benefit of any employee (other than a key employee) shall be determined under the method which is used for accrual purposes for all plans of the employer or if there is no method which is used for accrual purposes under all plans of the employer, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under section 411(b)(1)(C) of the Code. In determining this present value, the mortality and interest assumptions shall be those which would be used by the Pension Benefit Guaranty Corporation in valuing the

defined benefit plan if it terminated on such valuation date. The accrued benefit to be valued shall be the benefit expressed as a single life annuity.

- (f) In determining the accounts of employees under a defined contribution plan, the account values determined as of the most recent asset valuation occurring within the twelve (12) month period ending on the determination date shall be used. In addition, amounts required to be contributed under either the minimum funding standards or the plan's contribution formula shall be included in determining the account. In the first year of the plan, contributions made or to be made as of the determination date shall be included even if such contributions are not required.
- (g) If any individual has not performed any services for any employer maintaining the plan at any time during the five (5) year period ending on the determination date, any accrued benefit of the individual under a defined benefit plan and the account of the individual under a defined contribution plan shall not be taken into account.
- (h) For this purpose, a terminated plan shall be treated like any other plan and must be aggregated with other plans of the employer if it was maintained within the last five (5) years ending on the determination date for the Plan Year in question and would, but for the fact that it terminated, be part of the aggregation group for such Plan Year.

**1.10. Top Heavy Plan.** Top heavy plan means a qualified plan under which (as of the determination date):

- (i) if the plan is a defined benefit plan, the present value of the cumulative accrued benefits for key employees exceeds sixty percent (60%) of the present value of the cumulative accrued benefits for all employees, and
- (ii) if the plan is a defined contribution plan, the aggregate of the accounts of key employees exceeds sixty percent (60%) of the aggregate of all of the accounts of all employees.

In applying the foregoing, the following rules shall be observed:

- (a) Each plan of an Employer required to be included in an aggregation group shall be a top heavy plan if such aggregation group is a top heavy aggregation group.
- (b) For the purpose of determining the present value of the cumulative accrued benefit for any employee under a defined benefit plan, or the amount of the account of any employee under a defined contribution plan, such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the five (5) year period ending on the determination date.
- (c) Any rollover contribution (or similar transfer) initiated by the employee, made from a plan maintained by one employer to a plan maintained by another employer and made after December 31, 1983, to a plan shall not be taken into account with respect to the transferee plan for the purpose of determining whether such transferee plan is a top heavy plan (or whether any aggregation group which includes such plan is a top heavy aggregation group). Any rollover contribution (or similar transfer) not described in the preceding sentence shall be taken into account with respect to the transferee plan for the purpose of determining whether such transferee plan is a top heavy plan (or whether any aggregation group which includes such plan is a top heavy aggregation group).

- (d) If any individual is not a key employee with respect to a plan for any Plan Year, but such individual was a key employee with respect to the plan for any prior Plan Year, the cumulative accrued benefit of such employee and the account of such employee shall not be taken into account.
- (e) The determination of whether a plan is a top heavy plan shall be made once for each Plan Year of the plan as of the determination date for that Plan Year.
- (f) In determining the present value of the cumulative accrued benefits of employees under a defined benefit plan, the determination shall be made as of the actuarial valuation date last occurring during the twelve (12) months preceding the determination date and shall be determined on the assumption that the employees terminated employment on the valuation date except as provided in section 416 of the Code and the regulations thereunder for the first and second Plan Years of a defined benefit plan. The accrued benefit of any employee (other than a key employee) shall be determined under the method which is used for accrual purposes for all plans of the employer or if there is no method which is used for accrual purposes under all plans of the employer, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under section 411(b)(1)(C) of the Code. In determining this present value, the mortality and interest assumptions shall be those which would be used by the Pension Benefit Guaranty Corporation in valuing the defined benefit plan if it terminated on such valuation date. The accrued benefit to be valued shall be the benefit expressed as a single life annuity.
- (g) In determining the accounts of employees under a defined contribution plan, the account values determined as of the most recent asset valuation occurring within the twelve (12) month period ending on the determination date shall be used. In addition, amounts required to be contributed under either the minimum funding standards or the plan's contribution formula shall be included in determining the account. In the first year of the plan, contributions made or to be made as of the determination date shall be included even if such contributions are not required.
- (h) If any individual has not performed any services for any employer maintaining the plan at any time during the five (5) year period ending on the determination date, any accrued benefit of the individual under a defined benefit plan and the account of the individual under a defined contribution plan shall not be taken into account.
- (i) For this purpose, a terminated plan shall be treated like any other plan and must be aggregated with other plans of the employer if it was maintained within the last five (5) years ending on the determination date for the Plan Year in question and would, but for the fact that it terminated, be part of the aggregation group for such Plan Year.

## **SECTION 2**

### **DETERMINATION OF TOP HEAVINESS**

Once each Plan Year, as of the determination date for that Plan Year, the administrator of this Plan shall determine if this Plan is a top heavy plan.

## SECTION 3

### CONTINGENT PROVISIONS

**3.1. When Applicable.** If this Plan is determined to be a top heavy plan for any Plan Year, the following provisions shall apply for that Plan Year (and, to the extent hereinafter specified, for subsequent Plan Years), notwithstanding any provisions to the contrary in the Plan.

#### **3.2. Vesting Requirement.**

**3.2.1. General Rule.** During any Plan Year that the Plan is determined to be a Top Heavy Plan, then all accounts of all Participants in a defined contribution plan that is a top heavy plan and the accrued benefits of all Participants in a defined benefit plan that is a top heavy plan shall be vested and nonforfeitable in accordance with the following schedule if, and to the extent, that it is more favorable than other provisions of the Plan:

<u>If the Participant Has Completed the Following Years of Vesting Service:</u>	<u>His Vested Percentage Shall Be:</u>
Less than 2 years	0%
2 years but less than 3 years	20%
3 years but less than 4 years	40%
4 years but less than 5 years	60%
5 years but less than 6 years	80%
6 years or more	100%

**3.2.2. Subsequent Year.** In each subsequent Plan Year that the Plan is determined not to be a top heavy plan, the other nonforfeitable provisions of the Plan Statement (and not this section) shall apply in determining the vested and nonforfeitable rights of Participants who do not have five (5) or more years of Vesting Service (three or more years of Vesting Service for Participants who have one or more Hours of Service in any Plan Year beginning after December 31, 1988) as of the beginning of such subsequent Plan Year; provided, however, that they shall not be applied in a manner which would reduce the vested and nonforfeitable percentage of any Participant.

**3.2.3. Cancellation of Benefit Service.** If this Plan is a defined benefit plan and if the Participant's vested percentage is determined under this Appendix and if a Participant receives a lump sum distribution of the present value of the vested portion of his accrued benefit, the Plan shall:

- (a) thereafter disregard the Participant's service with respect to which he received such distribution in determining his accrued benefit, and
- (b) permit the Participant who receives a distribution of less than the present value of his entire accrued benefit to restore this service by repaying (after returning to employment covered under the Plan) to the trustee the amount of such distribution together with interest at the interest rate of five percent (5%) per annum compounded annually (or such other interest rate as is provided by law for such repayment). If the distribution was on account of separation from service such repayment must be made before the earlier of,
  - (i) five (5) years after the first date on which the Participant is subsequently reemployed by the employer, or
  - (ii) the close of the first period of five (5) consecutive one-year breaks in service commencing after the distribution.



If the distribution was on account of any other reason, such repayment must be made within five (5) years after the date of the distribution.

### **3.3. Defined Contribution Plan Minimum Benefit Requirement.**

**3.3.1. General Rule.** If this Plan is a defined contribution plan, then for any Plan Year that this Plan is determined to be a top heavy plan, the Employer shall make a contribution for allocation to the account of each employee who is a Participant for that Plan Year and who is not a key employee in an amount (when combined with other Employer contributions and forfeited accounts allocated to his account) which is at least equal to three percent (3%) of such Participant's compensation. (This minimum contribution amount shall be further reduced by all other Employer contributions to this Plan or any other defined contributions plan.) This contribution shall be made for each Participant who has not separated from service with the Employer at the end of the Plan Year (including for this purpose any Participant who is then on temporary layoff or authorized leave of absence or who, during such Plan Year, was inducted into the Armed Forces of the United States from employment with the Employer) including, for this purpose, each employee of the Employer who would have been a Participant if he had: (i) completed one thousand (1,000) Hours of Service (or the equivalent) during the Plan Year, and (ii) made any mandatory contributions to the Plan, and (iii) earned compensation in excess of the stated amount required for participation in the Plan.

**3.3.2. Special Rule.** Subject to the following rules, the percentage referred to in Section 3.3.1 of this Appendix shall not exceed the percentage at which contributions are made (or required to be made) under this Plan for the Plan Year for that key employee for whom that percentage is the highest for the Plan Year.

- (a) The percentage referred to above shall be determined by dividing the Employer contributions for such key employee for such Plan Year by his compensation for such Plan Year.
- (b) For the purposes of this Section 3.3, all defined contribution plans required to be included in an aggregation group shall be treated as one (1) plan.
- (c) The exception contained in this Section 3.3.2 shall not apply to (be available to) this Plan if this Plan is required to be included in an aggregation group if including this Plan in an aggregation group enables a defined benefit plan to satisfy the qualification requirements of section 410 or section 401(a)(4) of the Code.

**3.3.3. Salary Reduction and Matching Contributions.** For the purpose of this Section 3.3, all Employer contributions attributable to a salary reduction or similar arrangement shall be taken into account for the purpose of determining the minimum percentage contribution required to be made for a particular Plan Year for a Participant who is not a key employee but not for the purpose of determining whether that minimum contribution requirement has been satisfied. For the purpose of this Section 3.3 during all Plan Years beginning after December 31, 1988, all Employer matching contributions shall be taken into account for the purposes of determining the minimum percentage contribution required to be made for a particular Plan Year for a Participant who was not a key employee but not for the purpose of determining whether that minimum contribution requirement has been satisfied.

### **3.4. Defined Benefit Plan Minimum Benefit Requirement.**

**3.4.1. General Rule.** If this Plan is a defined benefit plan, then for any Plan Year that the Plan is determined to be a top heavy plan, the accrued benefit for each Participant who is

not a key employee shall not be less than one-twelfth (1/12th) of the applicable percentage of the Participant's average compensation for years in the testing period.

**3.4.2. Special Rules and Definitions.** In applying the general rule of Section 3.4.1 of this Appendix, the following special rules and definitions shall apply:

- (a) The term "applicable percentage" means the lesser of:
  - (1) two percent (2%) multiplied by the number of years of service with the Employer, or
  - (2) twenty percent (20%).
- (b) For the purpose of this Section 3.4, a Participant's years of service with the Employer shall be equal to the Participant's Vesting Service except that a year of Vesting Service shall not be taken into account if:
  - (1) the Plan was not a top heavy plan for any Plan Year ending during such year of Vesting Service, or
  - (2) such year of Vesting Service was completed in a Plan Year beginning before January 1, 1984.
- (c) A Participant's "testing period" shall be the period of five (5) consecutive years during which the Participant had the greatest compensation from the Employer; provided, however, that:
  - (1) the years taken into account shall be properly adjusted for years not included in a year of service, and
  - (2) a year shall not be taken into account if such year ends in a Plan Year beginning before January 1, 1984, or such year begins after the close of the last year in which the Plan was a top heavy plan.
- (d) An individual shall be considered a Participant for the purpose of accruing the minimum benefit only if such individual has at least one thousand (1,000) Hours of Service during a benefit accrual computation period (or equivalent service determined under Department of Labor regulations). Furthermore, such individual shall accrue a minimum benefit only for a benefit accrual computation period in which such individual has one thousand (1,000) Hours of Service (or equivalent service). An individual shall not fail to accrue the minimum benefit merely because the individual: (i) was not employed on a specified date, or (ii) was excluded from participation (or otherwise failed to accrue a benefit) because the individual's compensation was less than a stated amount, or (iii) because the individual failed to make any mandatory contributions.

**3.4.3. Accruals Preserved.** In years subsequent to the last Plan Year in which this Plan is a top heavy plan, the other benefit accrual rules of the Plan Statement shall be applied to determine the accrued benefit of each Participant, except that the application of such other rules shall not serve to reduce a Participant's accrued benefit as determined under this Section 3.4.

**3.5. Priorities Among Plans.** In applying the minimum benefit provisions of this Appendix in any Plan Year that this Plan is determined to be a top heavy plan, the following rules shall apply:

- (a) If an employee participates only in this Plan, the employee shall receive the minimum benefit applicable to this Plan.
- (b) If an employee participates in both a defined benefit plan and a defined contribution plan and only one (1) of such plans is a top heavy plan for the Plan Year, the employee shall receive the minimum benefit applicable to the plan which is a top heavy plan.
- (c) If an employee participates in both a defined contribution plan and a defined benefit plan and both are top heavy plans, then the employee, for that Plan Year, shall receive the defined benefit plan minimum benefit unless for that Plan Year the employee has received employer contributions and forfeitures allocated to his account in the defined contribution plan in an amount which is at least equal to five percent (5%) of his compensation.
- (d) If an employee participates in two (2) or more defined contribution plans which are top heavy plans, then the employee, for that Plan Year, shall receive the defined contribution plan minimum benefit in that defined contribution plan which has the earliest original effective date.

### 3.6. Annual Contribution Limits.

**3.6.1. General Rule.** Notwithstanding anything apparently to the contrary in the Appendix A to the Plan Statement, for any Plan Year that this Plan is a top heavy plan, the defined benefit fraction and defined contribution fraction of the Appendix to the Plan Statement pertaining to limits under section 415 of the Code shall be one hundred percent (100%) and not one hundred twenty-five percent (125%).

**3.6.2. Special Rule.** Section 3.6.1 of this Appendix shall not apply to any top heavy plan if such top heavy plan satisfies the following requirements:

- (a) **Minimum Benefit Requirement.** The top heavy plan (and any plan required to be included in an aggregation group with such plan) satisfies the requirements of Section 3.4 of this Appendix when Section 3.4.2(a)(1) of this Appendix is applied by substituting three percent (3%) for two percent (2%) and by increasing (but by no more than ten percentage points) twenty percent (20%) by one percentage point for each year for which the plan was taken into account under this Section 3.7. Section 3.3.1 of this Appendix shall be applied by substituting "four percent (4%)" for "three percent (3%)." Section 3.5(c) of this Appendix shall be applied by substituting "seven and one-half percent (7-1/2%)" for "five percent (5%)."
- (b) **Ninety Percent Rule.** A top heavy plan would not be a top heavy plan if "ninety percent (90%)" were substituted for "sixty percent (60%)" each place that it appears in the definitions of top heavy plan and top heavy aggregation group.

**3.6.3. Transition Rule.** If, but for this Section 3.6.3, Section 3.6.1 of this Appendix would begin to apply with respect to this Plan because it is a top heavy plan, the application of Section 3.6.1 of this Appendix shall be suspended with respect to any individual so long as there are no:

- (a) employer contributions, forfeitures or voluntary nondeductible contributions allocated to such individual (if this Plan is a defined contribution plan), or
- (b) accruals for such individual (if this Plan is a defined benefit plan).

**3.6.4. Coordinating Change.** If this Plan is a top heavy plan for any Plan Year, then for purposes of the Appendix A to the Plan Statement, section 415(e)(6)(i) of the Code shall be

applied by substituting "Forty-one Thousand Five Hundred Dollars (\$41,500)" for "Fifty-one Thousand Eight Hundred Seventy-five Dollars (\$51,875)."

**3.7. Bargaining Units.** The requirements of Section 3.2 through Section 3.6 of this Appendix shall not apply with respect to any employee included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one (1) or more employers if there is evidence that retirement benefits are the subject of good faith bargaining between such employee representatives and such employer or employers.

**APPENDIX C**  
**QUALIFIED DOMESTIC RELATIONS ORDERS**

**SECTION 1**

**GENERAL MATTERS**

Terms defined in the Plan Statement shall have the same meanings when used in this Appendix.

1.1. **General Rule.** The Plan shall not honor the creation, assignment or recognition of any right to any benefit payable with respect to a Participant pursuant to a domestic relations order unless that domestic relations order is a qualified domestic relations order.

1.2. **Alternate Payee Defined.** The only persons eligible to be considered alternate payees with respect to a Participant shall be that Participant's spouse, former spouse, child or other dependent.

1.3. **DRO Defined.** A domestic relations order is any judgment, decree or order (including an approval of a property settlement agreement) which relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a Participant and which is made pursuant to a state domestic relations law (including a community property law).

1.4. **QDRO Defined.** A qualified domestic relations order is a domestic relations order which creates or recognizes the existence of an alternate payee's right to (or assigns to an alternate payee the right to) receive all or a portion of the Account of a Participant under the Plan and which satisfies all of the following requirements.

1.4.1. **Names and Addresses.** The order must clearly specify the name and the last known mailing address, if any, of the Participant and the name and mailing address of each alternate payee covered by the order.

1.4.2. **Amount.** The order must clearly specify the amount or percentage of the Participant's Account to be paid by the Plan to each such alternate payee or the manner in which such amount or percentage is to be determined.

1.4.3. **Payment Method.** The order must clearly specify the number of payments or period to which the order applies.

1.4.4. **Plan Identity.** The order must clearly specify that it applies to this Plan.

1.4.5. **Settlement Options.** Except as provided in Section 1.4.8 of this Appendix, the order may not require the Plan to provide any type or form of benefits or any option not otherwise provided under the Plan.

1.4.6. **Increased Benefits.** The order may not require the Plan to provide increased benefits.

1.4.7. **Prior Awards.** The order may not require the payment of benefits to an alternate payee which are required to be paid to another alternate payee under another order previously determined to be a qualified domestic relations order.

**1.4.8. Exceptions.** The order will not fail to meet the requirements of Section 1.4.5 of this Appendix if:

- (a) The order requires payment of benefits be made to an alternate payee before the Participant has separated from service but as of a date that is on or after the date on which the Participant attains (or would have attained) the earliest payment date described in Section 1.4.10 of this Appendix; and
- (b) The order requires that payment of benefits be made to an alternate payee as if the Participant had retired on the date on which payment is to begin under such order (but taking into account only the present value of benefits actually accrued); and
- (c) The order requires payment of benefits to be made to an alternate payee in any form in which benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the alternate payee and his or her subsequent spouse).

In lieu of the foregoing, the order will not fail to meet the requirements of Section 1.4.5 of this Appendix if the order: (1) requires that payment of benefits be made to an alternate payee in a single lump sum as soon as is administratively feasible after the order is determined to be a qualified domestic relations order, and (2) does not contain any of the provisions described in Section 1.4.9 of this Appendix, and (3) provides that the payment of such single lump sum fully and permanently discharges all obligations of the Plan to the alternate payee.

**1.4.9. Deemed Spouse.** Notwithstanding the foregoing:

- (a) The order may provide that the former spouse of a Participant shall be treated as a surviving spouse of such Participant for the purposes of Section 7 of the Plan Statement (and that any subsequent or prior spouse of the Participant shall not be treated as a spouse of the Participant for such purposes), and
- (b) The order may provide that, if the former spouse has been married to the Participant for at least one (1) year at any time, the surviving former spouse shall be deemed to have been married to the Participant for the one (1) year period ending on the date of the Participant's death.

**1.4.10. Payment Date Defined.** For the purpose of Section 1.4.8 of this Appendix, the earliest payment date means the earlier of:

- (a) The date on which the Participant is entitled to a distribution under the Plan; or
- (b) The later of (i) the date the Participant attains age fifty (50) years, or (ii) the earliest date on which the Participant could begin receiving benefits under the Plan if the Participant separated from service.

## **SECTION 2**

### **PROCEDURES**

**2.1. Actions Pending Review.** During any period when the issue of whether a domestic relations order is a qualified domestic relations order is being determined by the Committee, the Committee shall cause the Plan to separately account for the amounts which would be payable to the alternate payee during such period if the order were determined to be a qualified domestic relations order.

**2.2. Reviewing DROs.** Upon the receipt of a domestic relations order, the Committee shall determine whether such order is a qualified domestic relations order.

**2.2.1. Receipt.** A domestic relations order shall be considered to have been received only when the Committee shall have received a copy of a domestic relations order which is complete in all respects and is originally signed, certified or otherwise officially authenticated.

**2.2.2. Notice to Parties.** Upon receipt of a domestic relations order, the Committee shall notify the Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant that such domestic relations order has been received. The Committee shall include with such notice a copy of this Appendix.

**2.2.3. Comment Period.** The Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant shall be afforded a comment period of thirty (30) days from the date such notice is mailed by the Committee in which to make comments or objections to the Committee concerning whether the domestic relations order is a qualified domestic relations order. By the unanimous written consent of the Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant, the thirty (30) day comment period may be shortened.

**2.2.4. Initial Determination.** Within a reasonable period of time after the termination of the comment period, the Committee shall give written notice to the Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant of its decision that the domestic relations order is or is not a qualified domestic relations order. If the Committee determines that the order is not a qualified domestic relations order or if the Committee determines that the written objections of any party to the order being found a qualified domestic relations order are not valid, the Committee shall include in its written notice:

- (i) the specific reasons for its decision;
- (ii) the specific reference to the pertinent provisions of this Plan Statement upon which its decision is based;
- (iii) a description of additional material or information, if any, which would cause the Committee to reach a different conclusion; and
- (iv) an explanation of the procedures for reviewing the initial determination of the Committee.

**2.2.5. Appeal Period.** The Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant shall be afforded an appeal period of sixty (60) days from the date such an initial determination and explanation is mailed in which to make comments or objections concerning whether the original determination of the Committee is correct. By the unanimous written consent of the Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant, the sixty (60) day appeal period may be shortened.

**2.2.6. Final Determination.** In all events, the final determination of the Committee shall be made not later than eighteen (18) months after the date on which first payment would be required to be made under the domestic relations order if it were a qualified domestic relations order. The final determination shall be communicated in writing to the Participant and all persons claiming to be alternate payees and all prior alternate payees with respect to the Participant.

**2.3. Final Disposition.** If the domestic relations order is finally determined to be a qualified domestic relations order and all comment and appeal periods have expired, the Plan shall pay

all amounts required to be paid pursuant to the domestic relations order to the alternate payee entitled thereto. If the domestic relations order is finally determined not to be a qualified domestic relations order and all comment and appeal periods have expired, benefits under the Plan shall be paid to the person or persons who would have been entitled to such amounts if there had been no domestic relations order.

**2.4. Orders Being Sought.** If the Committee has notice that a domestic relations order is being or may be sought but has not received the order, the Committee shall not (in the absence of a written request from the Participant) delay payment of benefits to a Participant or Beneficiary which otherwise would be due. If the Committee has determined that a domestic relations order is not a qualified domestic relations order and all comment and appeal periods have expired, the Committee shall not (in the absence of a written request from the Participant) delay payment of benefits to a Participant or Beneficiary which otherwise would be due even if the Committee has notice that the party claiming to be an alternate payee or the Participant or both are attempting to rectify any deficiencies in the domestic relations order.

## **SECTION 3**

### **PROCESSING OF AWARD**

**3.1. General Rules.** If a benefit is awarded to an alternate payee pursuant to an order which has been finally determined to be a qualified domestic relations order, the following rules shall apply.

**3.1.1. Source of Award.** If a Participant shall have a Vested interest in more than one Account under the Plan, the benefit awarded to an alternate payee shall be withdrawn from the Participant's Accounts in proportion to his Vested interest in each of them.

**3.1.2. Effect on Account.** For all purposes of the Plan, the Participant's Account (and all benefits payable under the Plan which are derived in whole or in part by reference to the Participant's Account) shall be permanently diminished by the portion of the Participant's Account which is awarded to the alternate payee. The benefit awarded to an alternate payee shall be considered to have been a distribution from the Participant's Account for the limited purpose of applying any rules of the Plan Statement relating to distributions from an Account that is only partially Vested.

**3.1.3. After Death.** After the death of an alternate payee, all amounts awarded to the alternate payee which have not been distributed to the alternate payee and which continue to be payable shall be paid in a single lump sum distribution to the personal representative of the alternate payee's estate as soon as administratively feasible, unless the qualified domestic relations order clearly provides otherwise. The Participant's Beneficiary designation shall not be effective to dispose of any portion of the benefit awarded to an alternate payee, unless the qualified domestic relations order clearly provides otherwise.

**3.1.4. In-Service Benefits.** Any in-service distribution provisions of the Plan Statement shall not be applicable to the benefit awarded to an alternate payee.

**3.2. Segregated Account.** If the Committee determines that it would facilitate the administration or the distribution of the benefit awarded to the alternate payee or if the qualified domestic relations order so requires, the benefit awarded to the alternate payee shall be established on the books and records of the Plan as a separate account belonging to the alternate payee.

**3.3. Former Alternate Payees.** If an alternate payee has received all benefits to which the alternate payee is entitled under a qualified domestic relations order, the alternate payee will



not at any time thereafter be deemed to be an alternate payee or prior alternate payee for any substantive or procedural purpose of this Plan.

## **APPENDIX D**

### **HIGHLY COMPENSATED EMPLOYEE**

#### **SECTION 1**

##### **GENERAL DEFINITIONS**

**1.1. Highly Compensated Employee.** A "highly compensated employee" is any employee who, during the "determination year" or the "look-back year":

- (i) was at any time a five percent (5%) owner;
- (ii) received compensation from the Employer in excess of Seventy-Five Thousand Dollars (\$75,000);
- (iii) received compensation from the Employer in excess of Fifty Thousand Dollars (\$50,000) and was in the top-paid group of employees for such year; or
- (iv) was at any time an officer and received compensation greater than fifty percent (50%) of the amount in effect under section 415(b)(1)(A) of the Code for such year.

The group of employees (including former employees) who are highly compensated employees consists of both highly compensated active employees and highly compensated former employees.

**1.2. Determination Year.** The determination year is the current Plan Year (that is, the Plan Year for which the determination of which employees are highly compensated employees is being made).

**1.3. Look-back Year.** The look-back year is the twelve-month period immediately preceding the determination year (generally, the preceding Plan Year). The Employer does not elect to make the look-back year calculation on the basis of the calendar year ending with or within the determination year.

**1.4. Special Rule For Determination Year.** An employee not described in Section 1.1(ii), (iii) or (iv) for the look-back year shall not be treated as described in Section 1.1(ii), (iii) or (iv) for the determination year unless such employee is a member of the group consisting of the one hundred (100) employees paid the greatest compensation during the determination year. If there is no difference in compensation between the 100th employee and the 101st employee, then those employees receiving the same compensation as the 100th employee shall be ranked in descending order of seniority, with the employee with the greatest seniority being ranked first.

**1.5. Highly Compensated Active Employee.** A highly compensated active employee is any highly compensated employee who performs services for the Employer during the determination year (whether or not the employee performs services for the Employer during the lag period described in Section 1.2).

**1.6. Highly Compensated Former Employee.** A highly compensated former employee is any former employee who had a "separation year" (as defined in Section 2.9) prior to the determination year and was a highly compensated active employee for either (1) such employee's separation year or (2) any determination year ending on or after the employee's

55th birthday. An employee who performs no services for the Employer during a determination year is treated as a former employee.

## **SECTION 2**

### **SPECIAL RULES & DEFINITIONS**

**2.1. Incorporated Definitions.** Terms defined in the Plan Statement shall have the same meanings when used in this Appendix.

**2.2. Five Percent Owner.** An employee shall be treated as a five percent (5%) owner for any determination year or look-back year if at any time during such year such employee was a five percent (5%) owner (as defined in Appendix B to this Plan Statement) of the Employer.

**2.3. Top-Paid Group.** An employee is in the top-paid group of employees for any determination year or look-back year if such employee is in the group consisting of the top twenty percent (20%) of the employees when ranked on the basis of compensation paid during such year, excluding those employees described in Section 2.10. For purposes of the preceding sentence, the top twenty percent (20%) shall be determined by disregarding fractional numbers (i.e., the top 20% of 118 employees shall be the top 22 employees). Employees who perform no services for the Employer during the year are not included in determining the top-paid group of employees for that year.

**2.4. Special Rules For Officers.**

**2.4.1. Not More Than 50 Officers.** For purposes of Section 1.1(iv) of this Appendix, no more than fifty (50) employees (or, if lesser, the greater of three employees or ten percent of the employees) shall be treated as officers. If the actual number of officers exceeds this limit, then the officers who will be considered as includible officers under Section 1.1(iv) are those who receive the greatest compensation from the Employer during the determination year or the look-back year.

**2.4.2. At Least 1 Officer.** If for any determination year or look-back year no officer of the Employer is described in Section 1.1(iv) of this Appendix, the highest paid officer of the Employer for such year shall be treated as described in such Section 1.1(iv). This is true whether or not such employee is also a highly compensated employee on any other basis.

**2.5. Former Employees Excluded For Certain Purposes.** Former employees are not included in the top-paid group, the group consisting of the one hundred (100) employees paid the greatest compensation or the group of includible officers for purposes of determining who are highly compensated active employees. In addition, former employees are not counted as employees for purposes of determining the number of employees in the top-paid group.

**2.6. Employees Described In Several Groups.** An employee who is a highly compensated active employee for a determination year by reason of being described in one group under Section 1.1 for either the determination year or the look-back year, shall not be disregarded in determining whether another employee is a highly compensated active employee by reason of being described in another group under Section 1.1.

**2.7. Certain Family Members.**

**2.7.1. In General.** If any individual is a member of the family of a five percent (5%) owner or of a highly compensated employee in the group consisting of the ten (10) highly compensated employees paid the greatest compensation during the determination year or the look-back year, then:

- (i) such individual shall not be considered a separate employee; and
- (ii) any compensation paid to such individual (and any applicable contribution or benefit on behalf of such individual) shall be treated as if it were paid to (or on behalf of) the five percent (5%) owner or highly compensated employee.

Family members are subject to this aggregation rule whether or not they may be excluded under Section 2.10 for purposes of determining the top-paid group and whether or not they are highly compensated employees when considered separately.

**2.7.2. Family.** For purposes of Section 2.7.1 of this Appendix, the term "family" means, with respect to any employee, such employee's spouse and lineal ascendants or descendants and the spouses of such lineal ascendants or descendants.

**2.7.3. Priority.** The determination of which employees are highly compensated employees and which highly compensated employees are among the ten highly compensated employees paid the greatest compensation during the determination year or the look-back year shall be made prior to the application of the family aggregation rules. Similarly, the determination of the number and identity of employees in the top-paid group for a determination year or a look-back year and the identity of the group of employees consisting of the 100 employees paid the greatest compensation for a determination year shall be made prior to the application of the family aggregation rules. The family aggregation rules apply separately to the determination year and the look-back year.

**2.7.4. Change in Family Relationship.** An individual is a family member with respect to an employee or former employee if such individual is a family member on any day during the determination year or the look-back year, even though such relationship changes during such year as a result of death or divorce.

## **2.8. Compensation. For purposes of this Appendix:**

**2.8.1. In General.** The term "compensation" means wages within the meaning of section 3401(a) of the Code (for purposes of income tax withholding at the source) but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Code).

**2.8.2. Certain Provisions Not Taken Into Account.** The determination under Section 2.8.1 of this Appendix shall be made:

- (i) without regard to sections 125, 402(a)(8) and 402(h)(1)(B) of the Code; and
- (ii) in the case of Employer contributions made pursuant to a salary reduction agreement, without regard to section 403(b) of the Code.

Compensation for any employee who performed services for only part of a year is not annualized for purposes of determining such employee's compensation for the determination year or the look-back year.

**2.9. Separation Year.** Generally the "separation year" is the determination year during which the employee separates from service with the Employer. An employee who performs no services for the Employer during a determination year will be treated as having separated from service in the year in which that employee last performed services for the Employer.

**2.9.1. Deemed Separation.** Solely for the purpose of determining whether an employee is a highly compensated former employee after the employee actually separates from service, an employee may be deemed to have separated from service during a determination year in which the employee actually performs some services for the Employer.

An employee will be deemed to have a separation year if, in a determination year prior to the employee's attaining the age of 55, the employee receives compensation in an amount less than 50% of the employee's average annual compensation for the three consecutive calendar years preceding such determination year during which the employee received the greatest amount of compensation from the Employer (or the total period of the employee's service with the Employer, if less). This deemed separation from service may occur without regard to whether the reduction in compensation occurs on account of the employee's leave of absence from service with the Employer.

**2.9.2. Deemed Resumption.** An employee who is treated as having a deemed separation year by reason of Section 2.9.1 will not be treated as a highly compensated former employee after such employee actually separates from service with the Employer if, after such deemed separation year, and before the year of actual separation, such employee's compensation from the Employer for a particular determination year increased significantly so that such employee is treated as having a deemed resumption of employment. In order for a deemed resumption of employment to occur, there must be an increase in compensation from the Employer to the extent that such compensation would not result in a deemed separation year under Section 2.9.1 using the same three-year period taken into account for purposes of that Section.

## **2.10. Excluded Employees.**

**2.10.1. General Exclusions.** For purposes of determining the number of employees in the top-paid group for a determination year or a look-back year under Section 2.3 of this Appendix, the following employees shall be excluded:

- (i) employees who have not completed six (6) months of service by the end of the year;
- (ii) employees who normally work less than seventeen and one-half (17-1/2) hours per week;
- (iii) employees who normally work during less than six (6) months during the year; and
- (iv) employees who have not attained age twenty-one (21) by the end of the year.

For purposes of computing months of service, an employee's service in the immediately preceding year is added to service in the current year to determine whether an employee is excluded in the current year.

**2.10.2. Employees Covered By Collective Bargaining Agreements.** In general, employees who are included in a unit of employees covered by a collective bargaining agreement are included in determining the number of employees in the top-paid group. However, if ninety percent (90%) or more of all employees are covered under collective bargaining agreements and this Plan covers only employees who are not covered under such agreements, then the employees who are covered under such collective bargaining agreements shall not be counted in determining the number of employees who will be included in the top-paid group. In addition, the employees covered by such agreements will not be included in the top-paid group.

**2.10.3. Minimum Hour Rule.** An employee who works at least 17-1/2 hours a week for 50% or more of the total weeks worked by such employee during a determination year or look-back year is deemed to normally work more than 17-1/2 hours a week. An employee who works less than 17-1/2 hours a week for 50% or more of the total weeks worked by such employee during a determination year or look-back year is deemed to normally work less than 17-1/2 hours a week. The foregoing determinations may be made separately with respect to

each employee or on the basis of groups of employees who fall within particular job categories as established by the Employer on a reasonable basis. In general, 80% of the positions within a particular job category must be filled by employees who normally work less than 17-1/2 hours a week before any employees may be excluded under this rule on the basis of their membership in that job category. Alternatively, an Employer may exclude employees who are members of a particular job category if the median number of hours credited to employees in that category during a determination year or look-back year is 500 or less.

**2.10.4. Minimum Period of Time Rule.** The determination of whether an employee normally works during less than six months in any determination year or look-back year is made on the basis of the facts and circumstances of the Employer as evidenced by the Employer's customary experience in the years preceding such year. An employee who works on one day during a month is deemed to have worked during that month.

**2.10.5. Nonresident Aliens.** Employees who are nonresident aliens and who receive no earned income (within the meaning of section 911(d)(2) of the Code) from the employer which constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) are excluded for all purposes of this Appendix.

**2.11. Adjustments to Dollar Amounts.** The dollar amounts described in Section 1.1(ii) and (iii) shall be adjusted for cost-of-living increases as provided by regulations or other rulings by the Secretary of the Treasury. The applicable dollar amount for a particular determination year shall be the dollar amount for the calendar year in which the determination year begins. For determination years beginning before January 1, 1987, the dollar amounts in Section 1.1(ii) and (iii) shall be \$75,000 and \$50,000 respectively.

**2.12. Election to Include Leased Employees.** The term "employee" shall include all leased employees of the Employer, whether or not such leased employees are covered by a "safe-harbor plan" as described in section 414(n)(5) of the Code.

**2.13. Aggregation.** Subsections (b), (c), (m), (n), and (o) of section 414 of the Code shall be applied before the application of the rules in this Appendix.

**Exhibit 13**

## 1993 Annual Report

Fiscal Year Ended February 27, 1993



We're going all out to assure that our customers ..... have a quality experience with ShopKo. From the facility and merchandising to products, systems and the people, we are designing, building, buying and training for quality.



**ShopKo**  
STORES INC.®



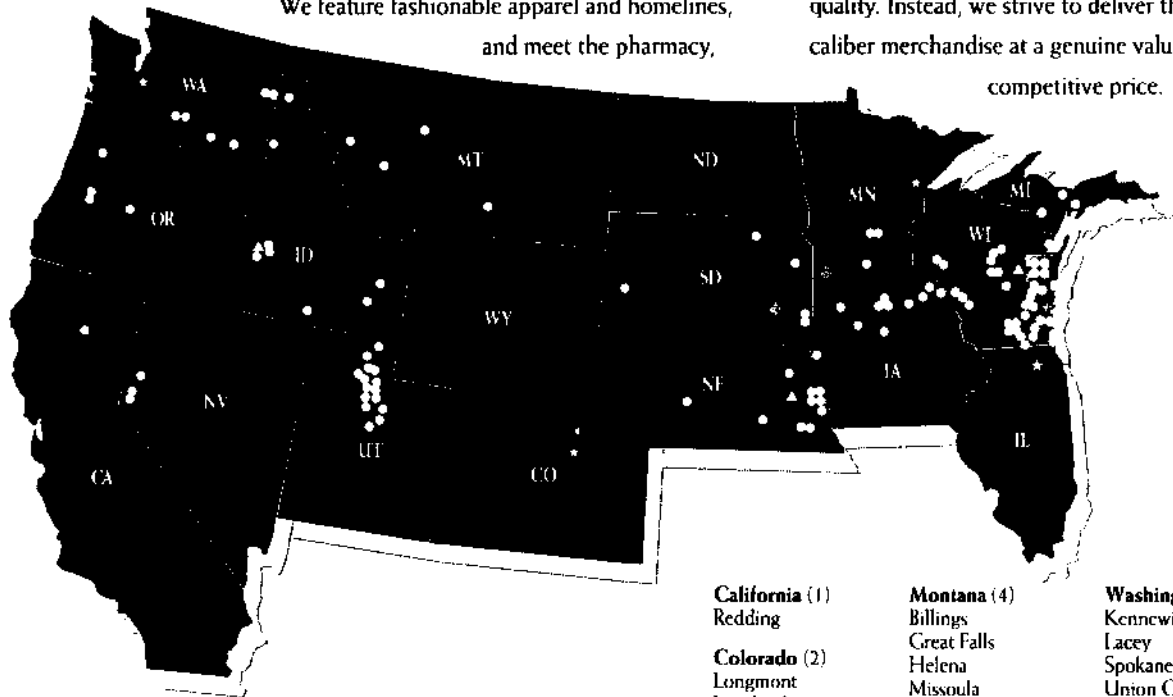
## ShopKo: <sup>66</sup>Your hometown department store. <sup>99</sup>

ShopKo is an upscale discount department store serving small and mid-sized markets in the upper midwest and northwest United States. With 111 stores in 13 states, we are the primary retailer for quality-sensitive customers in many of our communities.

We feature fashionable apparel and homelines, and meet the pharmacy,

optical, seasonal and everyday basic needs and expectations of our customers.

What sets us apart among discounters is our commitment to excellence in quality-driven categories. We are not distracted by achieving the lowest possible price at the expense of quality. Instead, we strive to deliver the highest caliber merchandise at a genuine value, and competitive price.



- ShopKo Stores
- General Office
- △ Distribution Centers
- ★ Fiscal 1994 New ShopKo Store Locations
- ◆ Fiscal 1994 Relocated ShopKo Stores

### STORE LOCATIONS

**California** (1)  
Redding

**Colorado** (2)  
Longmont  
Loveland

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

**Illinois** (1)  
Dixon

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

**Michigan** (3)  
Escanaba  
Kingsford  
Marquette

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

**Montana** (4)  
Billings  
Great Falls  
Helena  
Missoula

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

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

**Oregon** (4)  
Bend  
Eugene (2)  
Salem

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

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

**Washington** (7)  
Kennewick  
Lacey  
Spokane (2)  
Union Gap  
Walla Walla  
Yakima

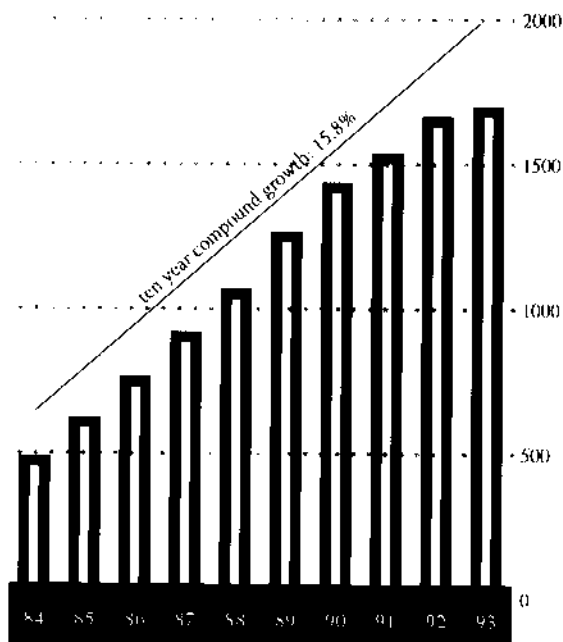
**Wisconsin** (37)  
Appleton  
Ashwaubenon  
Beaver Dam  
Beloit  
Chippewa Falls  
De Pere  
Eau Claire  
Fond du Lac  
Fort Atkinson  
Grafton  
Green Bay (2)  
Janesville  
Kenosha  
Kimberly  
La Crosse (2)  
Madison (3)  
Manitowoc  
Marinette  
Marshfield  
Menasha  
Monona  
Necnah  
Onalaska  
Oshkosh  
Racine  
Rothschild  
Sheboygan  
Stevens Point (2)  
Watertown  
Wausau  
West Bend  
Wisconsin Rapids

ShopKo Stores, Inc. and Subsidiaries

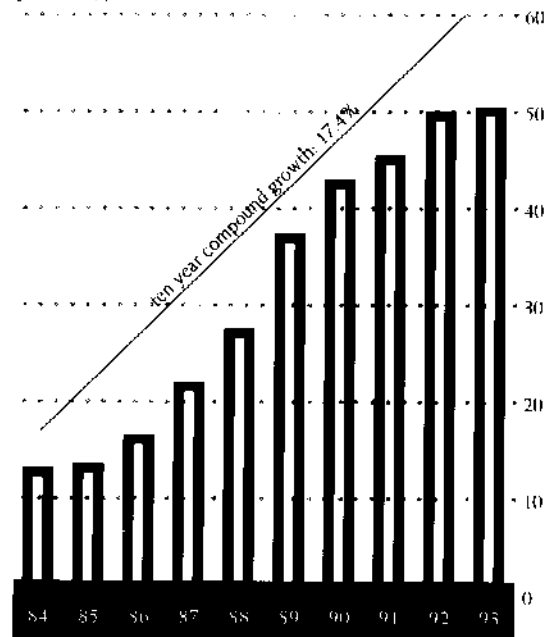
(In thousands, except per share data)	Fiscal years ended		% Increase
	February 27, 1993 (52 weeks)	February 29, 1992 (53 weeks)	
Net Sales	\$1,682,854	\$ 1,648,427	2.1%
Net Earnings	50,059	49,589	0.9%
Supplemental Net Earnings Per Common Share	1.56	1.55	0.6%
Dividends	0.44	* 0.11	
Shareholders' Equity	\$ 355,480	\$ 319,501	
Stores Open at Year End	111	109	

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

**NET SALES**  
[millions \$]



**NET EARNINGS**  
[millions \$]



Note: Fiscal years 1984 thru 1986 are unaudited. Fiscal years 1987 and 1992 are 53 week years.

In fiscal 1993 we experienced our twelfth consecutive year of record sales and earnings. Yet we have struggled over how to express our feelings about our performance.

Consider these achievements. Fiscal 1993 (year ending February 27, 1993) marked our thirty-first year of operation, with sales of \$1.68 billion reflecting a 2.1 percent increase over the previous year. The sales increase and comparable store sales increase were 3.6 percent and 1.5 percent respectively when fiscal 1992 is restated on a 52 week basis. Net earnings on these sales were \$50.1 million, representing a .09 percent increase; for shareholders, this translates into \$1.56 per share, compared to \$1.55 per share in fiscal 1992. We achieved this in a year with both a soft economy and lackluster spending - and in a highly competitive marketplace where we compete directly with industry giants who have a major and growing presence in our markets.

To take another perspective, ShopKo ended the year as the ninth largest discount retailer in the United States. But when

you compare us to the others in terms of operating profits, we suddenly move up to fourth place overall, and when you consider operating profit as a percent of sales, your company ranks second in the nation.

Considering all this, our performance last year was quite acceptable. However, we must tell you that "acceptable" is not good enough for ShopKo; our goal is to excel in all we do. Thus we look back at a "good" year with mixed feelings; we would far prefer to report a "great" year.

The future promises that opportunity.

ShopKo has adopted an ambitious set of objectives, and a robust new approach to business planning in order to achieve them. Last year we embarked on a number of strategic initiatives to reshape your company for continued growth and long-term profitability. We are re-engineering ShopKo's approach to everything

from merchandising and logistics to maximizing the contributions of our more than 18,000 talented and spirited associates. This involves a dynamic planning process, with constant refinements to address changes in technology, competition and consumer demands.

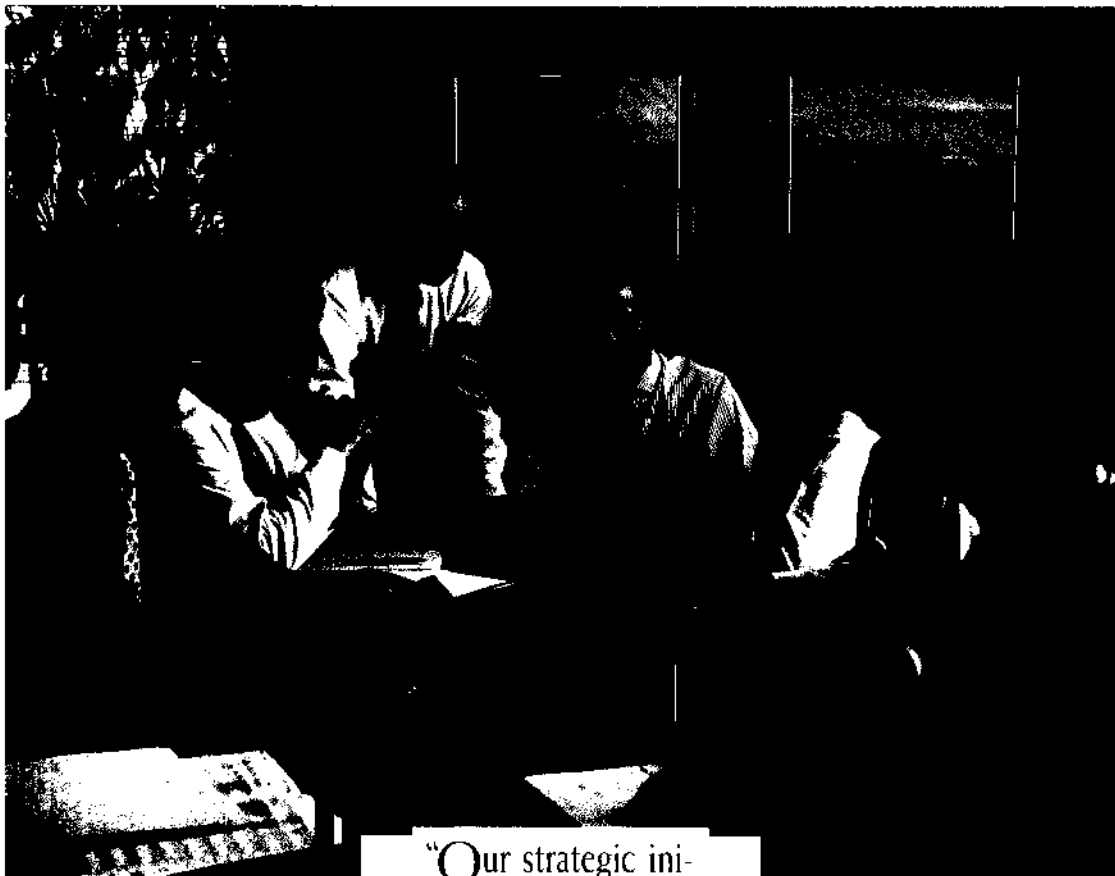
You can expect to see a much more aggressive expansion program. Last year we added two new stores and one relocated store, bringing our total to 111 in 13 states. This year we have scheduled the construction of six new stores, two relocated stores, plus the remodeling of another 16. This expansion will add two new states, Colorado and Illinois, since they are contiguous to our operations, we can take advantage of the efficiency offered by our existing distribution capabilities. Our new stores will be targeted at small to mid-sized communities. We have a significant track record of success in these markets as we serve as their hometown department store, often in the absence of regional malls.



Dale P. Kranner  
President and Chief Executive Officer

You can also expect to see rapid roll out of our VISION 2000 merchandising concept, launched just over a year ago. The concept combines a new, upscale image with increased emphasis on serving the fashion needs of smaller communities. We now have four new VISION 2000 stores, and have remodeled nine others to the standards developed for this concept. This year's planned new store construction and remodeling will bring to 36 the number of stores utilizing the VISION 2000 concept. That is fully 30% of the entire chain.

Throughout the VISION 2000 implementation we have and will continue to refine our approach, making constant improvements to distinguish ShopKo clearly from our national and regional competitors. The initial results indicate that the VISION 2000 stores are performing well, particularly in the softline area. We are firmly committed to supporting this fashion directive and while the VISION 2000 implementation is an ongoing process, all of our new stores planned for this year will clearly benefit from this successful approach.



We are enhancing the quality of our merchandise and providing improved systems and logistics programs to assure the timely and efficient availability of those goods our customers desire.

Finally, you can expect to see further competitive differentiation through our determination to achieve an exceptional level of customer satisfaction. The creativity and motivation of our associates will play a key role in realizing this goal.

Your company enters the new year with one of the strongest balance sheets in the industry, a clear focus on the fashion and quality demands of the marketplace, and the upscale facilities to meet those demands. With an energetic plan for growth and profitability, and an outstanding and talented team, we are firmly positioned to excel.

"Our strategic initiatives are focused on investing in the people, facilities and systems that will strengthen our competitive edge and provide for vigorous future growth."

Dale P. Kramer  
President and Chief Executive Officer

Mark R. Kennedy  
Executive Vice President

Mark Kennedy

"Our continued performance against all 3 national competitors, is a clear validation of our positioning and category focus."



Named Executive Vice President in 1993, Mark was previously in senior management with the Federated Department Store organization.

At ShopKo, planning is no longer a separate event; it is part of our everyday activity. Maintaining a strategic perspective throughout our day-to-day operations, we continuously monitor and adjust to changing customer needs, and incorporate new technological and process efficiencies. Active, ongoing planning keeps us nimble, turning our size into a considerable advantage over our larger, less agile competitors.

The overall goal of our planning is to provide customers with a unique shopping experience. To achieve this objective, we emphasize our historical strengths, use benchmarks for maximum efficiency in our execution, and prepare for growth.

Our distinct positioning provides many benefits. For example, conventional wisdom has always insisted on matching the competition's store, size for size. According to our research and testing, however, conventional wisdom may be wrong: bigger is not always better. By focusing on categories in which we

excel, we learned that a store of 74,000 square feet can produce attractive returns in small markets with larger competitors' stores. With our unique blend of quality selections in fashion and home products and our historical strength in health and seasonal categories, consumers find us an attractive alternative to traditional mass merchants. Our ability to spread store costs over a broader range of categories allows us to profitably enter smaller markets than traditional department and specialty stores, enabling us to become the hometown department store. With three prototype sizes, we can tailor each store to the market potential for our quality-focused offering.

Focused planning has also fortified our existing areas of strength, such as health care services. We were one of the first discount retailers to offer in-store pharmacies and optical centers. Today we provide them in virtually all our facilities. To further strengthen our position, we

are investing significantly in new pharmacy and optical software systems, improving our customer service levels and our ability to pursue third-party contracts.

Using benchmarks, we constantly improve our efficiency in selecting products and delivering them from the vendor to the customer. As a result, we have decreased our S,G & A expenses from 23.4 percent to 21.8 percent during the last five years, while increasing investment in customer service areas. We expect even further improvements in this area.

Our immediate plans call for aggressive new growth. In the past several years, we have been investing heavily in our infrastructure, preparing a foundation for long-term success. Thus our store expansion has been relatively modest. However, in the next fiscal year our preparations will begin to bear fruit as we refocus on adding new stores and remodeling existing ones. The flexibility

offered by our three prototypes opens many opportunities for expansion within our existing region.



Our planning also includes making optimal use of our financial vitality. Our current debt to capital ratio of 37.9 percent is one of the strongest in the industry, and provides a solid base upon which to build. We expect to initiate a commercial paper program later this year, making us the first regional discount department store chain to have access to this important funding source.

Finally, we are paying close attention to one of our most important strategic resources: people. As we identify changing needs, we aggressively recruit exceptional talent to augment and support the efforts of our seasoned associates. This ongoing development of a strong and focused management team is another significant assurance of our continued success.



**Skip Chustz**

"You can't deliver value and quality if you are constantly focused on the lowest price. We differentiate our stores and merchandise by offering quality at a real value."



Vice President and General Merchandise Manager—Apparel Skip is one of the most recent additions to the senior management team after developing a keen sense of fashion during his 17 previous years with the Maison Blanche Department Store group.

The VISION 2000 concept introduced in November 1991 had two goals. One was to enhance our image, using upscale merchandising techniques to set ShopKo apart from our competitors. The other goal was to increase our emphasis on five key areas: fashion, home, health, seasonal and everyday basics. The approach has succeeded in both dimensions, convincing us to implement it in our entire base of stores.

Merchandising, though, is only part of the VISION 2000 strategy. Our research demonstrates unmistakably that ShopKo customers want and expect quality from us. And we intend to deliver.

We have always employed strong quality standards. But this year we shall rise to a new level as we bring in-house the capabilities needed to test and analyze the quality of our fashion offerings. This quality

Thus we are training and empowering our associates to use their sensitivity and initiative in ensuring customer satisfaction. This empowerment is an important part of our plan to create strong customer loyalty through the delivery of unprecedented quality of service. On the basis of numerous studies, we are focusing on those areas customers have said are important.

This is no mere lip service to the concept of customer satisfaction, but an organization-wide commitment. We have retained the Gallup Organization to measure and quantify our performance in achieving customer satisfaction in all our stores.

This measurement will be ongoing, to establish benchmarks for performance and to tell us when we need to make changes. Even more important in creating a quality shopping experience for customers, this testing will be used directly as a basis for rewards in our associate incentive plans.

## BRINGING FASHION TO HOMETOWN AMERICA

assurance initiative will allow us to deliver a better and more consistent product offering, with greater control and efficiency. We will continue to use third-party quality testing to assure uniform performance by all ShopKo products.

Consistent product standards are important to consumers; however, they are only part of our definition of quality. We believe that quality should be part of the entire shopping experience — and that ultimately it is people and products that create a quality experience.

We are keenly aware that our associates play a critical role in satisfying customers and in fostering the creative energies that drive our organization successfully forward. The ShopKo associates are in fact our most valuable assets.

### Dave Liebergen

"We are committed to delivering in product, facility and people. We're going to measure, respond and reward based directly on customer feedback."



Vice President Human Resources, Dave has pioneered the concept of associate empowerment at ShopKo for over 20 years and will be leading the new in-house quality team

The VISION 2000 experience has confirmed that our customers want high quality and better fashion. In this vital area nobody knows and understands the fashion preferences of our small and medium sized markets better than ShopKo.

Our unique size also gives us a significant advantage over our huge national competitors in that we have the ability to respond more quickly to subtle trend changes.

Our fashion merchandise, which includes many well respected national brand name goods, is enhanced by our strong private label program.



In addition to providing our customers with timely styles and high quality at substantial retail savings, our private labels clearly differentiate our apparel offerings from those of our competition.

We are also continuously exploring new sources of supply to effectively meet the growing demands of our customers for a fresh stream of fashion offerings.

To respond energetically to changing market patterns, we are reorganizing our merchandising department to include a separate division aimed directly at children's fashions. In other lines we are prepared to target a new, more mature age group with an updated, traditional style assortment.

In summary, our strategy is to provide an upscale alternative to discounters whose appeal rests entirely on pricing. Our approach to fashion emphasizes timely responsiveness to customer tastes, with a focus on quality and value.

We are building a stronger future by taking major logistics initiatives today.

By improving efficiencies in the distribution and replenishment process, we not only improve the level of service to our customers, we also significantly reduce operating costs. A key to such efficiency is to centralize the purchasing, warehousing, distribution and replenishment systems for our stores.

In the past year we completed a \$34 million expansion of our three distribution centers in Wisconsin, Nebraska and Idaho. This program, completed on time and at a full \$2 million under budget, gives us a 142 percent increase in our distribution square footage. The result: we can increase the amount of merchandise we buy directly from manufacturers, reduce costs and improve service.

The quantity of merchandise flowing through the distribution centers grew from 45 percent in 1990 to 58

percent in 1992. By the end of the next fiscal year, we expect this figure to reach 70 percent.

We have initiated a major investment to expand our central replenishment capabilities through computer software development and staffing. We forecast that by year end we will be centralized in most home fashions and all basic apparel categories. The payback on this investment is virtually immediate.

In the past year we centrally replenished over \$430 million in merchandise, with sales of this merchandise increasing nine percent over the previous year. To speed the flow from purchase to time of sale, we now have more than 500 vendors, representing over 40 percent of our sales, receiving orders via Electronic Data Interchange, and have begun point of sale information sharing with our vendors and receiving vendor generated purchase order acknowledgements.

These enhanced replenishment capabilities strengthen our long-term relationships with our most valued

vendors and allow them to manufacture more efficiently, lowering both their costs and ours.

## CREATING THE FUTURE

ShopKo is poised to grow – in size, in sales, and in the esteem of our customers. We are taking strong initiatives on many fronts to achieve this goal. Aggressive new store expansion. Dramatic upscale merchandising. Significant improvements in product quality. Close attention to fashion trends, with the flexibility to exploit opportunities quickly. Increased efficiency, using the latest technology to achieve further cost savings. Commitment of our entire associate team to customer satisfaction. And to guide all our efforts, a new level of strategic consciousness.

With all these strategies and resources in place, we can expect a great deal from the future.



Steve Harig

"Our new distribution and systems are providing us outstanding productivity improvements and delivering rapid replenishment to our stores."



Steve, Vice President of Inventory and Replenishment, has been with ShopKo four years and brings to his responsibilities significant expertise acquired during his tenure with Wal-Mart in Bentonville, Arkansas.



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

## RESULTS OF OPERATIONS

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

	Fiscal years ended		
	Feb. 27, 1993 (52 Wks.)	Feb. 29, 1992 (53 Wks.)	Feb. 23, 1991 (52 Wks.)
Revenues:			
Net sales	100.0%	100.0%	100.0%
Licensed department rentals and other income	.7	.7	.8
Costs and expenses:			
Cost of sales	73.0	72.7	72.7
Selling, general and administrative expenses	21.8	22.0	21.9
Interest expense	1.1	1.1	1.4
Earnings before income taxes	4.8	4.9	4.8
Provision for income taxes	1.8	1.9	1.8
Net earnings	3.0%	3.0%	3.0%

### Fiscal 1993 Compared to Fiscal 1992

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

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

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

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

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

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

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

### 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). The Company opened 7 new stores in fiscal 1992 (including 2 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.

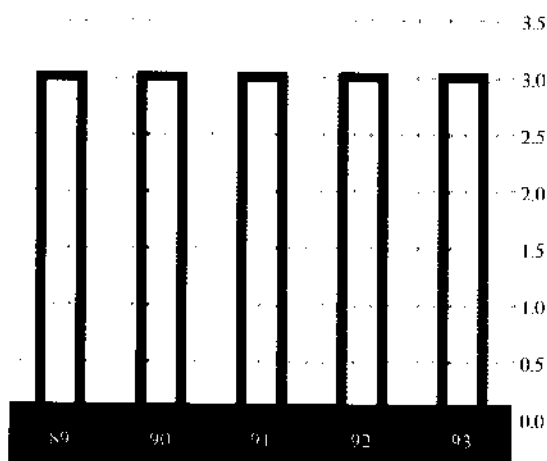
Gross margin as a percentage of sales remained constant at 27.3% in fiscal 1992 and 1991. Pre-tax LIFO expense was \$5.3 million in fiscal 1992 as compared to \$6.8 million in fiscal 1991. Before LIFO expense, gross margins were 27.6% and 27.8% for fiscal 1992 and 1991, respectively.

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 increased to 39.0% as compared to 38.7% for fiscal 1991.

### EARNINGS AS A PERCENTAGE OF SALES (percentage)



### LIQUIDITY AND CAPITAL RESOURCES

The Company relies primarily on cash generated from its operations, with the remaining needs being met from short-term and long-term borrowings. Cash provided from net earnings before depreciation and amortization was \$93.3 million, \$90.0 million and \$84.2 million in fiscal 1993, 1992 and 1991, 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 \$81.8 million at the end of fiscal 1993 from \$78.8 million at the end of fiscal 1992 and \$69.5 million at the end of fiscal 1991.

On March 12, 1992, the Company issued \$100 million 8.50% senior unsecured notes due March 15, 2002 and \$100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The net proceeds of \$197.1 million, after underwriting and issuance cost, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU Inc. of \$181.2 million with the remainder being used for working capital and other general corporate purposes.

On June 23, 1992 the Company entered into a \$107.5 million revolving credit agreement with a consortium of banks. This revolving line of credit is unsecured and will expire in three years. The interest rate is based on various money market rates selected by the Company at the time of borrowing. As of February 27, 1993 the Company had outstanding \$15.0 million under this agreement.

### Capital Expenditures

The Company spent \$91.1 million on capital expenditures in fiscal 1993, compared to \$53.4 million in fiscal 1992 and \$59.1 million in fiscal 1991. The increase in capital expenditures in fiscal 1993 resulted principally from the Company's distribution center expansion project, the increase in store remodels and new store expansion. The following table sets forth the components of the Company's actual capital expenditures for fiscal 1993, 1992 and 1991 (in millions):

	Fiscal Year		
	1993	1992	1991
New stores	\$32.9	\$25.4	\$43.5
Remodeling and refixturing	24.7	8.0	3.7
Distribution centers	21.9	12.8	.3
Management information and point-of sale equipment and systems	10.5	6.6	8.4
Other	1.1	.6	3.2
Total	\$91.1	\$53.4	\$59.1

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 fiscal year in which such expenditures occur varies depending on the timing of the store opening.

The Company opened 3 new stores (including 1 relocated store) and remodeled 9 other stores in fiscal 1993. Present plans are to open 8 new stores (including 2 relocated stores) and remodel 16 other stores in fiscal 1994. The Company's plans with respect to store openings may be reviewed and revised from time to time in light of changing conditions. The Company anticipates its total capital expenditures for new stores, remodels and management information systems to be approximately \$155.0 million in fiscal 1994.

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

The Company anticipates that additional external financing will be required in fiscal 1994 to fund its working capital needs and capital expenditures. The Company believes that such external financing is available.

#### Recent Pronouncements

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 109

"Accounting for Income Taxes." Both Statements must be adopted no later than fiscal 1994.

In regards to SFAS No. 106, the Company estimates that the total accumulated postretirement benefit obligation will be between \$1.0 and \$1.5 million. Assuming the Company elects a twenty year amortization of the post-retirement benefit obligation, the annual expense is estimated to be between \$.2 and \$.5 million.

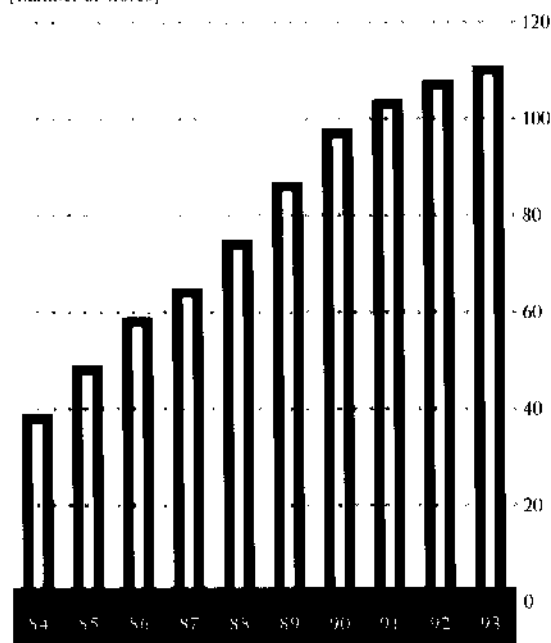
The Company is in the process of evaluating the impact of SFAS No. 109 on its financial position. Management believes the impact will not be material.

#### Inflation

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

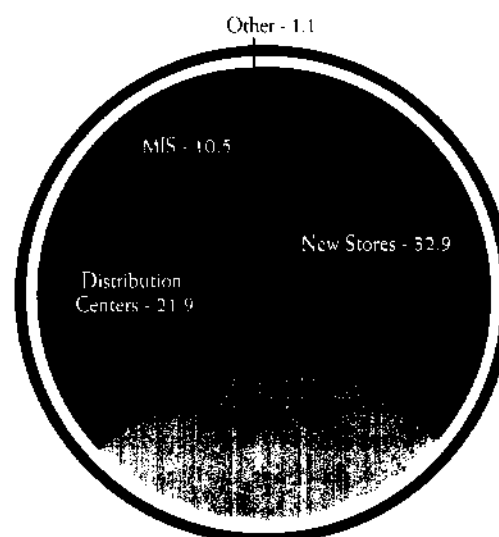
#### STORES OPEN AT FISCAL YEAR END

[number of stores]



#### FISCAL 1993 CAPITAL EXPENDITURES

[millions \$]



ShopKo Stores, Inc. and Subsidiaries

	Fiscal years ended					
	Feb. 27, 1993 (52 Weeks)	Feb. 29, 1992 (53 Weeks)	Feb. 23, 1991 (52 Weeks)	Feb. 24, 1990 (52 Weeks)	Feb. 25, 1989 (52 Weeks)	Feb. 27, 1988 (52 Weeks)
<b>SUMMARY OF OPERATIONS (Millions)</b>						
Net sales	\$ 1,683	\$ 1,648	\$ 1,521	\$ 1,420	\$ 1,248	\$ 1,051
Licensed department rentals and other income	11	11	12	11	10	9
Gross margin	454	450	415	394	358	296
Selling, general and administrative expenses	366	363	333	315	291	244
Interest expense	18	17	21	20	16	13
Earnings before income taxes	81	81	73	70	61	48
Net earnings	50	50	45	43(1)	37	27
<b>PER SHARE DATA (Dollars)</b>						
Supplemental net earnings per common share (2)	\$ 1.56	\$ 1.55	\$ 1.41	\$ 1.33	\$ 1.15	\$ 0.85
Cash dividends declared per common share (3)	0.44	0.11				
<b>FINANCIAL DATA (Millions)</b>						
Working capital	\$ 82	\$ 79	\$ 70	\$ 59	\$ 57	\$ 37
Property and equipment—net	493	445	432	412	369	313
Total assets	792	706	692	648	576	485
Total debt (4)	225	193	215	237	231	193
Shareholders' equity	355	320	273	228	186	149
Capital expenditures	91	53	59	80	91	88
Depreciation and amortization	43	40	39	35	31	25
<b>FINANCIAL RATIOS</b>						
Current ratio	1.4	1.4	1.4	1.3	1.4	1.3
Return on beginning assets	7.1%	7.2%	7.0%	7.4%	7.6%	6.9%
Return on beginning shareholders' equity	15.7%	18.1%	19.7%	22.9%	24.8%	22.3%
Total debt as % of total capitalization (5)	37.9%	36.7%	42.8%	50.0%	53.9%	54.9%
<b>OTHER YEAR END DATA</b>						
Stores open at year end	111	109	104	98	87	75
Average store size—square feet	89,500	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 includes short-term debt, current portion of long-term obligations, long-term obligations and payable to related party.

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

**ShopKo**

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(In thousands, except per share data)	Fiscal years ended		
	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)
<b>REVENUES:</b>			
Net sales	\$ 1,682,854	\$ 1,648,427	\$ 1,520,545
Licensed department rentals and other income	11,462	11,627	12,283
	1,694,316	1,660,054	1,532,828
<b>COSTS AND EXPENSES:</b>			
Cost of sales	1,228,431	1,198,726	1,105,119
Selling, general and administrative expenses	366,158	362,870	332,833
Interest expense	18,274	17,212	21,337
	1,612,863	1,578,808	1,459,289
Earnings before income taxes	81,453	81,246	73,539
Provision for income taxes	31,394	31,657	28,459
Net earnings	\$ 50,059	\$ 49,589	\$ 45,080
Net earnings per common share	\$ 1.56	\$ 2.35	
Weighted average number of common shares outstanding	32,000	21,120	
Supplemental net earnings per common share	\$ 1.56	\$ 1.55	\$ 1.41
Supplemental number of common shares outstanding	32,000	32,000	32,000

See notes to consolidated financial statements.

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	February 27, 1993	February 29, 1992
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 2,792	\$ 2,081
Receivables, less allowance for losses of \$1,578 and \$2,378, respectively	21,070	17,287
Merchandise inventories	263,333	233,211
Other current assets	9,133	7,773
Total current assets	296,328	260,352
Other assets and deferred charges	2,329	
Property and equipment - net	493,068	445,223
Total assets	\$ 791,725	\$ 705,575
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable - trade	\$ 125,783	\$ 116,525
Accrued compensation and related taxes	21,830	16,100
Accrued other liabilities	37,683	34,369
Accrued income and other taxes	13,409	13,804
Short-term debt	15,025	
Current portion of long-term obligations	822	786
Total current liabilities	214,552	181,584
Payable to related party		181,167
Long-term obligations	208,922	10,631
Deferred income taxes	12,771	12,692
Shareholders' equity:		
Preferred stock, none outstanding		
Common stock; Shares outstanding, 32,000	320	320
Additional paid-in capital	242,793	242,793
Retained earnings	112,367	76,388
Total shareholders' equity	355,480	319,501
Total liabilities and shareholders' equity	\$ 791,725	\$ 705,575

See notes to consolidated financial statements.

**ShopKo**

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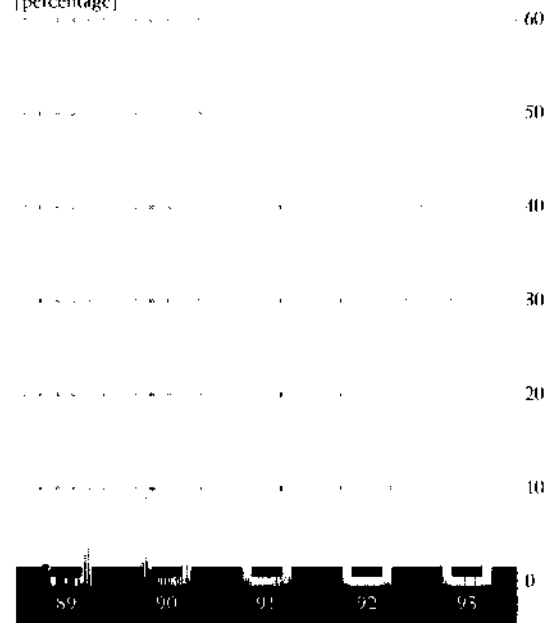
(In thousands)	Fiscal years ended		
	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 50,059	\$ 49,589	\$ 45,080
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	43,275	40,372	39,134
Provision for losses on receivables	143	139	215
Gain on the sale of property and equipment	(240)	(120)	(783)
Deferred income taxes	(68)	(3,899)	829
Change in assets and liabilities:			
Receivables	(3,926)	(430)	(2,461)
Merchandise inventories	(30,122)	2,016	(19,600)
Other current assets	(1,213)	(1,031)	(1,894)
Other assets	(558)		
Accounts payable	9,258	(13,859)	13,530
Accrued liabilities	8,649	3,675	5,581
<b>Net cash provided by operating activities</b>	<b>75,257</b>	<b>76,452</b>	<b>79,631</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for property and equipment	(91,060)	(53,391)	(59,100)
Proceeds from the sale of property and equipment	408	1,327	1,341
<b>Net cash (used in) investing activities</b>	<b>(90,652)</b>	<b>(52,064)</b>	<b>(57,759)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments to related party	(181,167)	(22,867)	(19,417)
Net proceeds from long-term debt	197,112		
Proceeds from short-term debt	15,025		
Net proceeds from sale of common stock		240,830	
Dividends paid	(14,080)	(240,830)	
Reduction in capital lease obligations	(784)	(1,446)	(2,263)
<b>Net cash provided by (used in) financing activities</b>	<b>16,106</b>	<b>(24,313)</b>	<b>(21,680)</b>
Net increase in cash	711	75	192
Cash at beginning of year	2,081	2,006	1,814
<b>CASH AT END OF YEAR</b>	<b>\$ 2,792</b>	<b>\$ 2,081</b>	<b>\$ 2,006</b>
Supplemental cash flow information:			
Noncash investing and financial activities:			
Capital lease obligations incurred	\$ —	\$ 1,871	\$ 333
Cash paid during the period for:			
Interest	\$ 15,642	\$ 18,339	\$ 22,331
Income taxes	\$ 31,879	\$ 42,430	\$ 27,237

See notes to consolidated financial statements.

ShopKo Stores, Inc. and Subsidiaries

(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings
	Shares	Amount		
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	
Balances at February 29, 1992	32,000	320	242,793	76,388
Net earnings				50,059
Cash dividends declared on common stock – \$.44 per share				(14,080)
	32,000	\$320	\$242,793	\$112,367

TOTAL DEBT AS A PERCENT OF  
TOTAL CAPITALIZATION  
[percentage]



See notes to consolidated financial statements.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Organization and Basis of Presentation:**

The consolidated financial statements include the accounts of ShopKo Stores, Inc. and its wholly owned subsidiaries ("ShopKo" or the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company, which is a Minnesota corporation 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 SUPERVALU Inc. ("SUPERVALU"), 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.

For the periods presented, certain general, administrative and other expenses reflected in the consolidated financial statements include allocations of certain corporate expenses from SUPERVALU. Such allocations are based on personnel, space, estimates of time spent to provide services or other appropriate bases. For fiscal year 1993, these allocations included general and administrative allocations for treasury, financial reporting, benefits administration and other miscellaneous services. For all prior years presented, these allocations also included charges for general management, tax, financial audit, insurance, legal, communications and public affairs. See Note C.

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 \$35.3 million at February 27, 1993, \$33.5 million at February 29, 1992, and \$28.2 million at February 23, 1991.

**Other Current Assets:**

Other current assets at February 27, 1993 and February 29, 1992 include \$3.7 and \$3.9 million, respectively, which was funded to a Voluntary Employees' Beneficiary Association (VEBA) trust for estimated eligible benefits under the Company's health care plans. These benefits are to be paid in fiscal years 1994 and 1993, 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 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, \$1.1 and \$1.0 million was capitalized in fiscal years 1993, 1992, and 1991, respectively.

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

	Feb. 27, 1993	Feb. 29, 1992
Property and equipment at cost:		
Land	\$ 102,394	\$ 89,196
Buildings	352,426	309,382
Property under construction	8,664	18,648
Leasehold improvements	40,914	40,903
Equipment	221,454	191,907
Property under capital leases	14,216	14,975
	<u>740,068</u>	<u>665,011</u>
Less accumulated depreciation and amortization:		
Property and equipment	239,344	212,242
Property under capital leases	7,656	7,546
Net property and equipment	<u>\$ 493,068</u>	<u>\$ 445,223</u>

**Accounts Payable:**

Accounts payable include \$5.4 and \$4.5 million at February 27, 1993 and February 29, 1992, 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 amounts reflected in the provision for income taxes are based on applicable federal statutory rates, adjusted for permanent differences between financial and taxable income, in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 96, "Accounting for Income Taxes." In fiscal 1992, the Company's results were included in SUPERVALU's consolidated U.S. federal income tax return for the period through completion of the Company's initial public offering on October 16, 1991. All income tax payments were made by SUPERVALU on behalf of its subsidiaries, a portion of which were allocated to the Company as a charge through the payable to related party account. In effect, the income tax provision was computed on a separate return basis. Subsequent to the initial public offering the Company has been filing separate income tax returns.

The Financial Accounting Standard Board has recently issued SFAS No. 109, "Accounting for Income Taxes," which supersedes SFAS No. 96. SFAS 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. 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. SHORT-TERM DEBT**

On June 23, 1992, the Company entered into a \$107.5 million revolving credit agreement with a consortium of banks. This revolving line of credit is unsecured and will expire in three years. The interest rate is based on various money market rates selected by the Company at the time of borrowing. The Company pays an annual facility and

commitment fee of 0.25 percent. As of February 27, 1993, the Company had outstanding \$15.0 million under this agreement.

**C. LONG-TERM OBLIGATIONS AND LEASES**

(In thousands)	Feb. 27, 1993	Feb. 29, 1992
Senior Unsecured Notes, 8.50% due March 15, 2002, less unamortized discount of \$332	\$ 99,668	\$ -
Senior Unsecured Notes, 9.25% due March 15, 2022, less unamortized discount of \$556	99,444	
Industrial Revenue Bond, 6.40% due May 1, 2008	1,000	1,000
Capital lease obligations	9,632	10,417
	209,744	11,417
Less current portion	822	786
Long-term obligations	\$ 208,922	\$ 10,631

On March 12, 1992, the Company issued \$100 million 8.50% senior unsecured notes due March 15, 2002 and \$100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The notes provide for semi-annual interest payments payable on June 15 and December 15 of each year. There is no sinking fund requirement and the notes are not redeemable prior to maturity.

The 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 \$197.1 million, after underwriting and issuance costs, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU of \$181.2 million with the remainder being used for working capital and other general corporate purposes. The underwriting and issuance costs are being amortized over the terms of the related notes, using the straight-line method. At February 27, 1993, \$1.8 million remained to be amortized over future periods. Amortized expense for these costs for fiscal 1993 was \$.1 million.

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

Amortization of property under capital leases was \$.9, \$1.4 and \$1.8 million in fiscal years 1993, 1992, and 1991, respectively. Minimum future obligations under capital leases in effect at February 27, 1993 are as follows (in thousands):

Year	Lease Obligations
1994	\$ 1,814
1995	1,793
1996	1,573
1997	1,544
1998	1,450
Later	8,721
Total minimum future obligations	16,895
Less interest	7,263
Present value of minimum future obligations	\$ 9,632

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.4% to 13.4%, with a weighted average of 10.7%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was \$1.1, \$1.1 and \$1.2 million in 1993, 1992, and 1991, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was \$.6, \$.7 and \$.9 million in 1993, 1992, and 1991, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for land and buildings. Minimum future obligations under operating leases in effect at February 27, 1993 are as follows (in thousands):

Year	Lease Obligations
1994	\$ 2,811
1995	2,767
1996	2,775
1997	2,779
1998	2,689
Later	50,544
Total minimum obligations	\$ 64,365

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was \$2.6, \$3.1, and \$2.9 million in 1993, 1992, and 1991, respectively.

Certain operating leases require payments to be made on an escalating basis. The accompanying consolidated statement of earnings reflect rent expense on a straight-line basis over the term of the leases. An obligation of \$.4 million, representing pro rata future payments, is reflected in the accompanying consolidated balance sheet at February 27, 1993.

#### D. INCOME TAXES

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

	1993	1992	1991
Current			
Federal	\$26,269	\$29,497	\$22,346
State	5,343	6,207	5,366
General business and other tax credits	(150)	(148)	(82)
Deferred	(68)	(3,899)	829
Total provision	\$31,394	\$31,657	\$28,459

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

	1993	1992	1991
Statutory income tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefits	4.4	4.5	4.8
Other	.1	0.5	(0.1)
Effective income tax rate	38.5%	39.0%	38.7%

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):

	1993	1992	1991
Excess tax over book depreciation	\$ 254	\$ (540)	\$ 1,073
LIFO inventory valuation	(75)	(539)	(478)
Bad debt and return reserves	291	(1,001)	(17)
Other	(538)	(1,819)	251
	\$ (68)	\$ (3,899)	\$ 829

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

## E. PREFERRED AND COMMON STOCK

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

There are 75,000,000 shares of \$0.01 par value common stock authorized with 32,000,000 issued and outstanding at February 27, 1993 and February 29, 1992, 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.

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

	Shares	Price Range
Granted	1,557	\$ 15.00
Canceled and forfeited	(18)	15.00
Outstanding, February 29, 1992	1,539	15.00
Granted	56	16.25
Canceled and forfeited	(90)	15.00
Outstanding, February 27, 1993	1,505	15.00-16.25
Exercisable at February 27, 1993	0	

## F. 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 \$4.4, \$8.3, and \$7.0 million for fiscal years 1993, 1992, and 1991, respectively.

In February 1993, the board of directors approved an amendment to the profit sharing plan. Beginning in fiscal 1994, the plan will provide for two types of company contributions; an amount determined annually by the board of directors and an employer matching contribution, in shares of Company stock, equal to one-half of the first 6 percent of compensation contributed by participating employees.

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

In 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 1993, 1992 and 1991.

The Financial Accounting Standards Board has issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 must be adopted no later than fiscal year 1994. The Company estimates that the total accumulated postretirement benefit obligation will be between \$1.0 and \$1.5 million. Assuming the Company elects a twenty year amortization of the postretirement benefit obligation, the annual expense is estimated to be between \$.2 and \$.5 million.

## G. RELATED PARTY TRANSACTIONS

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

Selling, general and administrative expenses include the following allocations:

	1993	1992	1991
From SUPERVALU to ShopKo	\$1,584	\$3,259	\$3,327
From ShopKo to wholly owned subsidiaries of SUPERVALU	\$2,507	\$2,036	\$2,243

The service agreements between SUPERVALU and ShopKo currently expire in early fiscal 1994.

Purchases of inventory from SUPERVALU were \$15.4, \$27.5, and \$29.9 million for the fiscal years 1993, 1992, and 1991, respectively.

SUPERVALU 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 SUPERVALU is reported as interest expense. This corporate charge approximated SUPERVALU's market rate of interest. The portion of the capital provided by SUPERVALU 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 SUPERVALU replaced the informal financing arrangement described above with a credit agreement. Under this agreement SUPERVALU made advances to the Company on a revolving basis. This credit agreement was terminated effective June 30, 1992.

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

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

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

#### H. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

The carrying amounts and fair values of the Company's financial instruments at February 27, 1993 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
Short-term debt	\$ 15,025	\$ 15,025
Long-term obligations:		
Senior Unsecured Notes, due March 15, 2002	99,668	105,757
Senior Unsecured Notes, due March 15, 2022	99,444	107,341
Industrial Revenue Bond, due May 1, 2005	1,000	1,000

## I. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly financial information is as follows:

	Fiscal Year (52 Weeks) Ended February 27, 1993				
(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	\$468,358	\$354,187	\$431,527	\$428,782	\$1,682,854
Gross margins	128,184	90,080	119,618	116,541	454,423
Net earnings	10,928	4,399	17,280	17,452	50,059
Net earnings per common share	0.34	0.14	0.54	0.55	1.56
Weighted average shares	32,000	32,000	32,000	32,000	32,000
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share*	16 3/4-14 1/4	15 1/4-13	16 3/4-14 1/4	16 1/4-14 1/4	16 3/4-13

	Fiscal Year (53 Weeks) Ended February 29, 1992				
(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12 wks)	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 1/4-11 3/4	17 1/4-12	17 1/4-11 3/4

\*Price range per common share reflects the highest and lowest stock market prices on the New York Stock Exchange during the quarter.

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 Subsidiaries as of February 27, 1993 and February 29, 1992 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years (52 weeks, 53 weeks and 52 weeks) in the period ended February 27, 1993. 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 27, 1993 and February 29, 1992, and the results of their operations and their cash flows for each of the three years (52 weeks, 53 weeks and 52 weeks) in the period ended February 27, 1993 in conformity with generally accepted accounting principles.

*Deloitte & Touche*  
*Deloitte & Touche*

DELOITTE & TOUCHE  
Milwaukee, Wisconsin  
April 2, 1993





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

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

Bruce G. Allbright  
Former President of Dayton Hudson Corporation  
and former Chairman and Chief Executive Officer  
of Target Stores

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

Jeffrey C. Girard  
Executive Vice President and Chief Financial Officer  
of SUPERVALU

Dale P. Kramer  
President and Chief Executive Officer of ShopKo

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

## EXECUTIVE GROUP

Eugene E. Bankers  
Vice President, Communications  
and Investor Relations

Michael J. Bettiga  
Vice President, Pharmacy

Kathleen S. Betts  
Director of Trend Merchandising

Roger J. Chustz  
Vice President/  
GMM Apparel

Lawrence J. Clark  
Vice President,  
Finance and Distribution

Richard W. Cooper  
Vice President,  
Distribution and Transportation

C. Scott Copeland  
Vice President/Director,  
Store Operations

Richard P. Evans  
Vice President,  
Property Development

Michael J. Gawin  
Divisional Merchandise Manager

Gary B. Hammond  
Regional Vice President

Steven T. Harig  
Vice President,  
Inventory and Replenishment

Thomas D. Hendra  
Senior Vice President,  
Merchandising

John W. Hermesen  
Vice President, Store Operations

Barry Horwitz  
Vice President,  
Planning and Research

Mark R. Kennedy  
Executive Vice President

Dale P. Kramer  
President and CEO

Richard S. Lamberg  
Vice President/  
Divisional Merchandise Manager

D. Michael Lampman  
Vice President, Optical

Richard T. Laucks  
Vice President, Loss Prevention

David A. Liebergen  
Vice President,  
Human Resources/Secretary

Alan Marek  
Vice President/  
Divisional Merchandise Manager

Dennis L. Nonnemacher  
Divisional Merchandise Manager

Thomas J. O'Shea  
Vice President/  
Divisional Merchandise Manager

John M. Pascucci  
Vice President,  
Management Information Systems

Randy L. Roiko  
Vice President,  
Financial Planning and Analysis

Dennis R. Ruebel  
Divisional Merchandise Manager

Steven M. Ryman  
Divisional Merchandise Manager

Walter B. Sandlin  
Divisional Merchandise Manager

## 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 19, 1993, ShopKo's common shares were held by 1,670 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.

### 1993 Annual Meeting

The annual meeting of shareholders will be held June 16, 1993 at 10 a.m. at the Regency Conference Center, 333 Main Street, Green Bay, Wisconsin.

### Investor Relations

A copy of the company's 1993 Form 10-K annual report to the Securities and Exchange Commission will be furnished without charge to any shareholder upon written request.

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

All written requests should be directed to:

### Investor Relations Department

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



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



This entire report is printed on recycled paper.

Exhibit 21.1

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SUBSIDIARIES OF THE REGISTRANT

<u>NAME</u>	<u>STATE OF INCORPORATION</u>
ShopKo Pharmacies, Inc.	Michigan
SVS Trucking, Inc.	Minnesota
ShopKo Properties, Inc.	Minnesota
ShopKo Ventures - Duluth, Inc.	Minnesota

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Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-43952 and Registration No. 33-58584 of ShopKo Stores, Inc. and Subsidiaries on Form S-8 of our reports dated April 2, 1993, appearing in and incorporated by reference in the Annual Report on Form 10-K of ShopKo Stores, Inc. and Subsidiaries for the year (52 weeks) ended February 27, 1993.

*Deloitte & Touche*

DELOITTE & TOUCHE  
Milwaukee, Wisconsin  
May 20, 1993