TEREX CORP
Form ARS
April 12, 2002

"1"> 57 1,010 1,067 (185) 1883 12/29/06 15 20 years Rawlins,
WY (a) 25 406 25 406 431 (79) 1958 12/29/06 15 20 years

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Description	Encumbrances	Initial Cost to Company: Land and Improvements	Initial Cost to Company: Buildings, Improvements	Cost Capitalized Subsequent to Acquisition including impairment: Improvements/ Land and building	Gross Amount at December 31, 2010 (d): Land and Improvements	Gross Amount at December 31, 2010 (d): Buildings, Improvements	Total	Final Accum	Date of Construction	Date Acquired	Life in which depreciation in latest Income Statement is computed
Rawlins, WY	(a)	324	792		324	792	1,116	(118)	1999	03/01/06	15 40 years
Riverton, WY	(a)	307	284		307	284	591	(51)	1994	03/01/06	15 40 years
Sheridan, WY	(a)	607	450		607	450	1,057	(86)	1989	03/01/06	15 30 years
Northport, AL	(b)	2,041	1,946		2,041	1,946	3,987	(408)	2006	04/27/07	15 40 years
Building material suppliers											
Chandler, AZ	(b)	8,199	4,724		8,199	4,724	12,923	(625)	2005	04/27/07	15 40 years
Yuma, AZ	(b)	1,623	2,721		1,623	2,721	4,344	(355)	2006	04/27/07	15 40 years
Aurora, CO	(a)	2,562	2,740		2,562	2,740	5,302	(388)	1999	12/27/06	15 40 years
Clarkseville, DE	(b)	2,121	2,877		2,121	2,877	4,998	(475)	1970	10/14/10	15 40 years
Selbyville, DE	(b)	919	1,434		919	1,434	2,353	(234)	1970	10/14/10	15 20 years
Bradenton, FL	(b)	2,160	3,030		2,160	3,030	5,190	(545)	2006	04/27/07	15 40 years
Elkton, FL	(b)	1,332	2,594		1,332	2,594	3,926	(292)	2005	04/27/07	15 40 years
Plant City, FL	(b)	2,192	3,280		2,192	3,280	5,472	(513)	2004	10/14/10	15 30 years
Fortson, GA	(b)	1,120	1,006		1,120	1,006	2,126	(205)	2002	10/14/10	15 40 years
Danville, IN	(b)	831	923		831	923	1,754	(112)	1993	11/10/08	15 40 years
Indianapolis, IN	(b)	849	582		849	582	1,431	(106)	1970	11/10/08	15 20 years
Seymour, IN	(b)	506	494		506	494	1,000	(92)	1995	10/14/10	15 30 years
Ashland, KY	(b)	1,009	1,032		1,009	1,032	2,041	(197)	1991	10/14/10	15 30 years
Bardstown, KY	(b)	766	837		766	837	1,603	(130)	2000	11/10/08	15 40 years
Danville, KY	(b)	502	703		502	703	1,205	(108)	1995	11/10/08	15 40 years
Georgetown, KY	(b)	769	885		769	885	1,654	(145)	1998	06/11/08	15 40 years
Lexington, KY	(b)	871	1,105		871	1,105	1,976	(188)	1970	10/14/10	15 30 years
London, KY	(b)	698	701		698	701	1,399	(126)	1979	11/10/08	15 20 years
Louisville, KY	(b)	800	1,274		800	1,274	2,074	(201)	1963	10/14/10	15 20 years
Louisville, KY	(b)	737	758		737	758	1,495	(131)	1963	11/10/08	15 30 years
Richmond, KY	(b)	732	720		732	720	1,452	(120)	1976	11/10/08	15 30 years
Russellville, KY	(b)	293	541		293	541	834	(85)	1995	11/10/08	15 30 years
Somerset, KY	(b)	731	802		731	802	1,533	(115)	1998	11/10/08	15 40 years
Versailles,KY	(b)	825	1,059		825	1,059	1,884	(179)	1978	10/14/10	15 30 years
Winchester, KY	(b)	720	646		720	646	1,366	(113)	1983	11/10/08	15 30 years
Baton Rouge, LA	(b)	1,568	5,806		1,568	5,806	7,374	(710)	2003	10/14/10	15 40 years
West Springfield, MA	(b)	1,443	1,467		1,443	1,467	2,910	(300)	1983	10/14/10	10 15 years
Mechanicsville, MD	(b)	772	2,110		772	2,110	2,882	(275)	1996	10/14/10	15 40 years
Oakland, MD	(b)	804	809		804	809	1,613	(146)	1993	11/10/08	15 40 years
Springfield, MO	(b)	943	2,714		943	2,714	3,657	(436)	1976	11/10/08	15 20 years
Richland, MS	(b)	1,351	2,279		1,351	2,279	3,630	(298)	2005	04/27/07	15 40 years
Southhaven, MS	(b)	1,251	2,034		1,251	2,034	3,285	(353)	2005	04/27/07	15 40 years
Waveland, MS	(b)	675	1,229		675	1,229	1,904	(146)	2000	11/10/08	15 40 years
Fayetteville, NC	(b)	785	2,243		785	2,243	3,028	(361)	2006	04/27/07	15 40 years
Huntersville, NC	(b)	1,418	2,644		1,418	2,644	4,062	(393)	2006	04/27/07	15 40 years
Raleigh, NC	(b)	1,066	2,497		1,066	2,497	3,563	(339)	1975	10/14/10	15 30 years
Winston Salem, NC	(b)	1,548	1,653		1,548	1,653	3,201	(368)	2005	04/27/07	15 40 years
Lincoln, NE	(b)	1,822	2,158		1,822	2,158	3,980	(314)	1985	11/10/08	15 30 years
Alamogordo, NM	(b)	645	861		645	861	1,506	(100)	1980	11/10/08	15 40 years
Auburn, NY	(b)	397	786		397	786	1,183	(112)	1962	11/10/08	15 30 years
Depew, NY	(b)	398	1,108		398	1,108	1,506	(173)	1960	11/10/08	15 20 years
East Syracuse, NY	(b)	975	746		975	746	1,721	(114)	1970	11/10/08	15 30 years
Guilderland, NY	(b)	510	512		510	512	1,022	(90)	1965	11/10/08	15 20 years
Niagra Falls, NY	(b)	289	807		289	807	1,096	(107)	1981	10/14/10	15 20 years
Orchard Park, NY	(b)	304	1,488		304	1,488	1,792	(174)	1966	10/14/10	15 20 years
Owego, NY	(b)	152	823		152	823	975	(93)	1992	10/14/10	15 30 years

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Patchogue, NY	(b)	1,869	797			1,869	797	2,666	(268)	1985	10/14/10	15 20 years
Riverhead, NY	(b)	1,146	1,402			1,146	1,402	2,548	(188)	1984	06/02/08	15 30 years
Tonawanda, NY	(b)	168	1,104			168	1,104	1,272	(124)	1968	10/14/10	15 20 years
Bridgeport, OH	(b)	360	544			360	544	904	(97)	1984	11/10/08	18 20 years
Cambridge, OH	(b)	542	781			542	781	1,323	(118)	1978	11/10/08	15 30 years
Columbus, OH	(b)	786	397			786	397	1,183	(90)	1970	11/10/08	15 20 years
Dayton, OH	(b)	266	605			266	605	871	(94)	1970	11/10/08	15 20 years
Empire, OH	(b)	595	394			595	394	989	(85)	1971	11/10/08	15 20 years
Pataskala, OH	(b)	796	656			796	656	1,452	(123)	1998	11/10/08	15 20 years
Edmond, OK	(b)	900	2,717			900	2,717	3,617	(316)	2005	04/27/07	15 40 years
Altoona, PA	(b)	342	545			342	545	887	(77)	1993	11/10/08	15 30 years
Douglassville, PA	(b)	440	447			440	447	887	(96)	1979	11/10/08	15 20 years
Greensburg, PA	(b)	391	793			391	793	1,184	(123)	1977	11/30/09	15 40 years
Grove City, PA	(b)	243	863			243	863	1,106	(104)	1991	10/14/10	15 30 years
Highspire, PA	(b)	801	2,211			801	2,211	3,012	(309)	2005	04/27/07	15 40 years
Loretto, PA	(b)	283	1,144			283	1,144	1,427	(136)	1965	10/14/10	15 20 years
Milesburg, PA	(b)	323	537			323	537	860	(91)	1973	11/10/08	15 20 years
Mt Pleasant, PA	(b)	399	623			399	623	1,022	(94)	1997	11/10/08	15 30 years
Murrysville, PA	(b)	963	1,199			963	1,199	2,162	(216)	1968	10/14/10	15 20 years
New Castle, PA	(b)	494	855			494	855	1,349	(131)	1995	10/14/10	15 30 years
Somerset, PA	(b)	257	604			257	604	861	(82)	1979	11/10/08	15 30 years
Waynesboro, PA	(b)	248	801			248	801	1,049	(98)	1996	11/10/08	15 30 years
Lexington, SC	(b)	1,250	2,153			1,250	2,153	3,403	(288)	2006	04/27/07	15 40 years
N. Charleston, SC	(b)	1,455	2,389			1,455	2,389	3,844	(307)	2005	04/27/07	15 40 years
Chattanooga, TN	(b)	1,161	2,053			1,161	2,053	3,214	(386)	2006	04/27/07	15 40 years
Clarksville, TN	(b)	1,145	1,972			1,145	1,972	3,117	(309)	2005	04/27/07	15 40 years
Dayton, TN	(b)	437	816			437	816	1,253	(91)	1999	06/11/08	15 40 years
Hendersonville, TN	(b)	1,555	2,341			1,555	2,341	3,896	(360)	2006	04/27/07	15 40 years
Knoxville, TN	(b)	1,199	737			1,199	737	1,936	(151)	1972	11/10/08	15 30 years
Madisonville, TN	(b)	418	815			418	815	1,233	(91)	1999	06/11/08	15 40 years
Murfreesboro, TN	(b)	612	1,244			612	1,244	1,856	(193)	1968	11/30/09	15 40 years
Piperton, TN	(b)	1,338	1,916			1,338	1,916	3,254	(278)	2006	04/27/07	15 40 years
Denton, TX	(b)	2,308	1,888			2,308	1,888	4,196	(278)	2005	04/27/07	15 40 years
Georgetown, TX	(b)	1,587	3,114			1,587	3,114	4,701	(384)	2006	04/27/07	15 40 years
Lubbock, TX	(b)	288	1,110			288	1,110	1,398	(138)	1976	11/10/08	15 30 years
San Antonio, TX	(b)	1,403	2,195			1,403	2,195	3,598	(348)	2004	04/27/07	15 40 years
Spanish Fork, UT	(b)	1,324	3,441			1,324	3,441	4,765	(412)	2006	04/27/07	15 40 years
Abingdon, VA	(b)	401	814			401	814	1,215	(117)	1979	10/14/10	15 30 years
Charlottesville, VA	(b)	414	663			414	663	1,077	(81)	1981	06/02/08	15 30 years
Keller, VA	(b)	244	959			244	959	1,203	(114)	1995	10/14/10	15 40 years
Manassas, VA	(b)	3,591	2,021			3,591	2,021	5,612	(223)	2005	04/27/07	15 40 years
Pearisburg, VA	(b)	195	688			195	688	883	(85)	1985	10/14/10	15 30 years
Richmond, VA	(b)	722	455			722	455	1,177	(80)	1972	06/02/08	15 20 years
Stephenson, VA	(b)	1,606	2,207			1,606	2,207	3,813	(395)	2006	04/27/07	15 40 years
Troutville, VA	(b)	542	802			542	802	1,344	(92)	1979	11/10/08	15 40 years
Beaver, WV	(b)	169	375			169	375	544	(57)	1991	11/10/08	15 20 years
Buckhannon, WV	(b)	343	733			343	733	1,076	(90)	1982	11/10/08	15 30 years
Chattaroy, WV	(b)	107	227			107	227	334	(54)	1982	11/10/08	10 18 years
Huntington, WV	(b)	907	1,275			907	1,275	2,182	(210)	1985	10/14/10	15 30 years
Milton, WV	(b)	68	169			68	169	237	(40)	1977	11/10/08	10 18 years
Moorefield, WV	(b)	572	310			572	310	882	(48)	1996	11/10/08	15 40 years
Morgantown, WV	(b)	930	307			930	307	1,237	(65)	1994	11/10/08	15 30 years

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Moundsville, WV	(b)	712	310			712	310	1,022	(56)	1969	11/10/08	15	30 years
North Bluefield, WV	(b)	217	492			217	492	709	(57)	1983	11/10/08	15	40 years
Ranson, WV	(b)	1,020	1,955			1,020	1,955	2,975	(302)	2005	04/27/07	15	40 years
Automotive dealers, parts and service properties													
Alabaster, AL	(a)	631	1,010			631	1,010	1,641	(86)	1995	12/22/06		40 years
Auburn, AL	(a)	276	1,260	108		384	1,260	1,644	(148)	1987	12/22/06	15	30 years
Auburn, AL	(c)	676	647			676	647	1,323	(104)	1995	09/07/07	15	30 years
Bessemer, AL	(a)	358	1,197			358	1,197	1,555	(102)	1988	12/22/06		40 years
Birmingham, AL	(a)	607	1,379			607	1,379	1,986	(118)	1988	12/22/06		40 years
Birmingham, AL	(a)	417	1,237			417	1,237	1,654	(106)	1970	12/22/06		40 years
Birmingham, AL	(a)	334	1,119			334	1,119	1,453	(96)	1989	12/22/06		40 years
Birmingham, AL	(a)	372	1,073			372	1,073	1,445	(122)	1965	12/22/06		30 years
Birmingham, AL	(a)	343	901			343	901	1,244	(77)	1989	12/22/06		40 years
Birmingham, AL	(a)	339	858			339	858	1,197	(73)	1990	12/22/06		40 years
Birmingham, AL	(a)	300	839			300	839	1,139	(57)	1998	12/22/06		50 years
Decatur, AL	(a)	187	1,174			187	1,174	1,361	(80)	2000	12/22/06		50 years
Decatur, AL	(a)	84	803			84	803	887	(55)	2001	12/22/06		50 years
Dothan, AL	(c)	162	659			162	659	821	(87)	1996	09/07/07	15	30 years
Florence, AL	(a)	130	1,128			130	1,128	1,258	(77)	1999	12/22/06		50 years
Gardendale, AL	(a)	586	1,274			586	1,274	1,860	(109)	1989	12/22/06		40 years
Huntsville, AL	(a)	195	1,649			195	1,649	1,844	(141)	1993	12/22/06		40 years
Huntsville, AL	(a)	374	1,295			374	1,295	1,669	(111)	1997	12/22/06		40 years
Huntsville, AL	(a)	184	1,037			184	1,037	1,221	(71)	2001	12/22/06		50 years
Huntsville, AL	(a)	252	917			252	917	1,169	(104)	1965	12/22/06		30 years
Huntsville, AL	(a)	295	893			295	893	1,188	(76)	1994	12/22/06		40 years
Huntsville, AL	(a)	778	1,686			778	1,686	2,464	(253)	1997	07/01/05	19	30 years
Madison, AL	(a)	359	1,505			359	1,505	1,864	(129)	1995	12/22/06		40 years
Madison, AL	(a)	211	1,401			211	1,401	1,612	(120)	1997	12/22/06		40 years
Mobile, AL	(c)	217	640			217	640	857	(85)	1992	09/07/07	15	30 years
Mobile, AL	(c)	167	601			167	601	768	(81)	1990	09/07/07	15	30 years
Mobile, AL	(c)	157	508			157	508	665	(69)	1982	09/07/07	15	30 years
Mobile, AL	(c)	89	501			89	501	590	(61)	1982	11/30/07	15	30 years
Mobile, AL	(c)	155	500			155	500	655	(67)	1984	09/07/07	15	30 years
Montgomery, AL	(c)	422	857			422	857	1,279	(117)	1992	09/07/07	15	30 years
Montgomery, AL	(c)	303	636			303	636	939	(88)	1996	09/07/07	15	30 years
Montgomery, AL	(c)	241	628			241	628	869	(85)	1997	09/07/07	15	30 years
Montgomery, AL	(c)	398	626			398	626	1,024	(93)	1997	09/07/07	15	30 years
Montgomery, AL	(c)	275	528			275	528	803	(79)	1988	09/07/07	15	30 years
Opelika, AL	(c)	503	628			503	628	1,131	(98)	1995	09/07/07	15	30 years
Oxford, AL	(a)	120	1,224			120	1,224	1,344	(105)	1990	12/22/06		40 years
Pinson, AL	(a)	320	916			320	916	1,236	(63)	2001	12/22/06		50 years
Spanish Fort, AL	(c)	563	607			563	607	1,170	(109)	1993	09/07/07	15	30 years
Ontario, CA	9,731	7,981	6,937			7,981	6,937	14,918	(609)	2005	06/30/05	15	40 years
Denver, CO	(c)	574	1,010			574	1,010	1,584	(123)	1953	03/23/07	15	40 years
Denver, CO	(c)	519	503			519	503	1,022	(68)	1968	03/23/07	15	40 years
Crestview, FL	(c)	544	743			544	743	1,287	(99)	1975	09/07/07	15	30 years
Gulf Breeze, FL	(c)	296	457			296	457	753	(62)	1993	09/07/07	15	30 years
Jacksonville, FL	11,533	6,155	10,957			6,155	10,957	17,112	(977)	2005	06/30/05	15	40 years
Jacksonville, FL	(a)	3,170	938			3,170	938	4,108	(213)	1989	12/28/05	15	40 years
Jacksonville, FL	(c)	2,929	2,447	(1,351)	(1,023)	1,578	1,424	3,002	(402)	1995	06/29/07	4	30 years
Jacksonville, FL	(c)	2,146	1,973	(1,235)	(985)	911	988	1,899	(351)	1973	06/29/07	6	20 years

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Marianna, FL	(c)	283	452			283	452	735	(60)	1994	09/07/07	15	40 years
Milton, FL	(c)	137	577			137	577	714	(76)	1986	09/07/07	15	30 years
Niceville, FL	(c)	458	454			458	454	912	(54)	1996	09/07/07	15	40 years
Pensacola, FL	(c)	150	575			150	575	725	(79)	1986	09/07/07	15	30 years
Pensacola, FL	(c)	195	569			195	569	764	(79)	1983	09/07/07	15	30 years
Pensacola, FL	(c)	238	564			238	564	802	(77)	1994	09/07/07	15	30 years
Pensacola, FL	(c)	148	459			148	459	607	(61)	1972	09/07/07	15	30 years
Pensacola, FL	(c)	104	333			104	333	437	(49)	1968	09/07/07	15	30 years
Pompano Beach, FL	7,569	6,153	5,010			6,153	5,010	11,163	(444)	2004	06/30/05	15	40 years
Albany, GA	(c)	281	575			281	575	856	(88)	1997	09/07/07	15	30 years
Albany, GA	(c)	242	572			242	572	814	(61)	1982	09/07/07	15	40 years
Moultrie, GA	(c)	179	271			179	271	450	(60)	1983	09/07/07	15	20 years
Valdosta, GA	(c)	376	576			376	576	952	(80)	1996	11/30/07	15	30 years
Portland, ME	(a)	650	566			650	566	1,216	(102)	1993	06/30/09	15	30 years
Clinton Township, MI	(a)	5,430	7,254	(3,117)	(3,778)	2,313	3,476	5,789	(1,012)	1999	01/09/07	15	30 years
Lincoln, NE	(c)	1,318	1,604			1,318	1,604	2,922	(283)	1972	07/13/07	15	30 years
Lincoln, NE	(a)	2,518	1,711	(1,167)	(761)	1,351	950	2,301	(296)	2006	10/26/06	7	40 years
Tulsa, OK	(a)	1,808	4,539			1,808	4,539	6,347	(713)	1992	05/26/06	10	30 years
Tulsa, OK	(a)	1,225	373			1,225	373	1,598	(244)	1999	12/28/05	15	40 years
Gettysburg, PA	(a)	1,385	3,259			1,385	3,259	4,644	(555)	2005	02/16/07	5	30 years
Greenville, SC	(a)	2,561	1,526			2,561	1,526	4,087	(473)	1999	12/28/05	15	40 years
Chattanooga, TN	(c)	1,826	2,009			1,826	2,009	3,835	(420)	1990	07/18/07	5	30 years
Caldwell, TX	(c)	1,775	1,725			1,775	1,725	3,500	(318)	2000	12/31/07	15	40 years
Conroe, TX	(a)	4,338	448	955	145	5,293	593	5,886	(587)	2005	09/01/09	15	50 years
Houston, TX	(c)	2,214	2,504			2,214	2,504	4,718	(413)	1992	06/29/07	6	30 years
Irving, TX	(a)	7,348	970			7,348	970	8,318	(824)	1960	09/01/09	15	30 years
Irving, TX	(a)	931	268			931	268	1,199	(62)	1965	09/01/09	15	20 years
Plano, TX	(c)	3,064	2,707			3,064	2,707	5,771	(522)	1992	06/29/07	5	30 years
Midlothian, VA	7,208	4,775	6,056			4,775	6,056	10,831	(535)	2004	06/30/05	15	40 years
Industrial properties													
Merced, CA	(c)	3,490	9,097	(35)	(90)	3,455	9,007	12,462	(956)	1998	03/31/08	15	30 years
Columbus, GA	(c)	3,728	10,947			3,728	10,947	14,675	(1,626)	1995	05/18/07	15	30 years
Columbus, GA	(c)	1,293	3,510			1,293	3,510	4,803	(665)	1965	05/18/07	15	20 years
Bridgeview, IL	(a)	1,093	3,731			1,093	3,731	4,824	(489)	1964	12/29/06	15	30 years
Byron, IL	(a)	734	4,334			734	4,334	5,068	(815)	1965	12/29/06	10	20 years
Elk Grove Village, IL	(b)	3,001	5,264	(1,604)	(2,511)	1,397	2,753	4,150	(650)	1970	12/28/06	20	30 years
Fremont, IN	(b)	427	2,176			427	2,176	2,603	(298)	1960	02/21/07	15	30 years
North Vernon, IN	1,949	766	2,644			766	2,644	3,410	(585)	1981	05/06/05	15	20 years
Lenexa, KS	(b)	1,463	5,110			1,463	5,110	6,573	(656)	1985	12/28/06	20	30 years
Shelbyville, KY	(b)	442	3,028			442	3,028	3,470	(356)	1973	12/28/06	20	30 years
Westfield, MA	(b)	3,258	8,090			3,258	8,090	11,348	(1,470)	1981	12/28/06	20	30 years
Worcester, MA	(b)	3,731	5,193			3,731	5,193	8,924	(1,248)	1971	12/28/06	20	20 years
Annapolis Junction, MD	(a)	2,245	1,105	(1,535)	(733)	710	372	1,082	(97)	1930	09/29/06	15	30 years
Fraser, MI	4,911	2,415	5,787	(1,189)	(2,518)	1,226	3,269	4,495	(1,195)	1969	05/06/05	9	40 years
Green Oak, MI	1,032	458	1,285	(221)	(614)	237	671	908	(188)	1989	05/06/05	15	30 years
Livonia, MI	1,261	1,315	834			1,315	834	2,149	(208)	1956	05/06/05	15	20 years
Middleville, MI	2,063	439	3,183	(99)	(698)	340	2,485	2,825	(582)	1953	05/06/05	15	20 years
Monroe, MI	(a)	1,567	12,435			1,567	12,435	14,002	(1,338)	2005	12/15/05	10	40 years
Monroe, MI	(a)	1,611	11,145			1,611	11,145	12,756	(1,159)	2003	12/14/06	9	40 years
Royal Oak, MI	(a)	3,426	7,071			3,426	7,071	10,497	(935)	1952	03/10/06	15	30 years
Troy, MI	(a)	1,128	947			1,128	947	2,075	(127)	1952	03/10/06	15	30 years

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		Initial Cost to Company		Cost Capitalized Subsequent to Acquisition including impairment		Gross Amount at December 31, 2010 (d)						Life in which depreciation in latest Income Statement is computed	
Description	**Encumbrances**	**Land and Improvements**	**Buildings, Improvements**	**Improvements/ Land**	**Improvements/ building**	**Land and Improvements**	**Buildings, Improvements**	**Total**	**Final Accum**	**Date of Construction**	**Date Acquired**		
Canal Fulton, OH	1,376	1,032	1,253	(338)	(388)	694	865	1,559	(349)	1987	05/06/05	15	20 years
Edon, OH	(b)	642	2,649			642	2,649	3,291	(513)	1953	02/21/07	15	20 years
Minerva, OH	(b)	649	3,920	(217)	(1,155)	432	2,765	3,197	(685)	1919	02/21/07	8	20 years
Sidney, OH	(a)	921	4,177			921	4,177	5,098	(828)	1987	12/22/05	13	20 years
Exton, PA	(b)	2,494	7,180			2,494	7,180	9,674	(767)	1999	12/28/06	20	40 years
Scottdale, PA	(b)	607	11,008			607	11,008	11,615	(1,886)	1959	12/28/06	20	20 years
Loudon, TN	(c)	1,200	4,953	(12)	(49)	1,188	4,904	6,092	(607)	1992	03/31/08	15	30 years
Nashville, TN	(b)	459	3,261			459	3,261	3,720	(384)	1960	12/28/06	20	30 years
Surgoinsville, TN	(a)	777	2,892			777	2,892	3,669	(470)	1997	02/13/09	15	30 years
Houston, TX	(a)	2,341	4,323			2,341	4,323	6,664	(651)	1990	06/03/05	13	30 years
Dublin, VA	(a)	491	1,401			491	1,401	1,892	(305)	1985	12/11/06	15	20 years
Pulaski, VA	(a)	333	1,536			333	1,536	1,869	(315)	1967	12/11/06	15	20 years
Grand Chute, WI	(b)	1,738	12,133			1,738	12,133	13,871	(1,542)	1966	12/28/06	20	30 years
Distribution properties													
Tontitown, AR	(a)	230	92			230	92	322	(30)	1987	05/01/05	15	20 years
Riverside, CA	(a)	1,203	6,254			1,203	6,254	7,457	(618)	2004	07/01/05	14	40 years
Fort Myers, FL	(a)	641	1,069			641	1,069	1,710	(198)	1999	07/01/05	14	30 years
Fort Myers, FL	(a)	1,021	583			1,021	583	1,604	(131)	1999	07/01/05	15	40 years
Jacksonville, FL	(a)	786	1,690			786	1,690	2,476	(411)	1960	07/01/05	9	20 years
Jacksonville, FL	(a)	963	1,007			963	1,007	1,970	(339)	2001	07/01/05	9	20 years
Jacksonville, FL	(a)	339	226			339	226	565	(68)	1987	07/01/05	15	20 years
Lakeland, FL	(a)	1,098	1,281			1,098	1,281	2,379	(318)	1984	07/01/05	14	20 years
Pompano Beach, FL	(a)	1,144	337			1,144	337	1,481	(83)	1990	07/01/05	15	30 years
Port Richey, FL	(a)	741	660			741	660	1,401	(266)	1975	07/01/05	9	15 years
Riviera Beach, FL	(a)	500	170			500	170	670	(51)	1987	07/01/05	15	20 years
Sebring, FL	(a)	318	291			318	291	609	(71)	1982	07/01/05	15	20 years
Tavares, FL	(a)	1,075	5,098			1,075	5,098	6,173	(593)	2004	07/01/05	14	40 years
Athens, GA	(a)	707	871			707	871	1,578	(223)	1985	05/01/05	10	20 years
Conyers, GA	(a)	164	486			164	486	650	(71)	1992	05/01/05	15	30 years
Lawrenceville, GA	(a)	500	237			500	237	737	(69)	1996	05/01/05	15	30 years
Valdosta, GA	(a)	632	336			632	336	968	(109)	1987	05/01/05	10	20 years
Mattoon, IL	(a)	233	263			233	263	496	(73)	1984	05/01/05	15	20 years
Indianapolis, IN	(a)	607	520			607	520	1,127	(125)	1990	05/01/05	15	20 years
Bowling Green, KY	(a)	136	228			136	228	364	(37)	1993	05/01/05	15	30 years
D'Iberville, MS	(a)	250	339			250	339	589	(71)	1984	05/01/05	15	20 years
Gulfport, MS	(a)	384	453			384	453	837	(186)	1970	05/01/05	10	15 years
Hattiesburg, MS	(a)	262	542			262	542	804	(126)	1986	05/01/05	10	20 years
Hickory, NC	(a)	199	262			199	262	461	(69)	1989	05/01/05	15	20 years
Statesville, NC	(a)	614	355			614	355	969	(151)	1976	05/01/05	10	15 years
Wilmington, NC	(a)	370	122			370	122	492	(36)	1987	05/01/05	15	20 years
Sewell, NJ	(a)	858	8,418			858	8,418	9,276	(733)	2000	11/17/06	15	50 years
Aiken, SC	(a)	108	265			108	265	373	(51)	1985	05/01/05	15	20 years
Florence, SC	(a)	221	174			221	174	395	(77)	1974	05/01/05	10	15 years
Greenville, SC	(a)	344	210			344	210	554	(96)	1981	05/01/05	10	15 years
Greer, SC	(a)	268	236			268	236	504	(58)	1993	05/01/05	15	30 years
West Columbia, SC	(a)	262	598			262	598	860	(128)	1984	05/01/05	10	20 years
West Columbia, SC	(a)	324	108			324	108	432	(29)	1989	05/01/05	15	20 years
Jackson, TN	(c)	260	143			260	143	403	(52)	1971	05/01/05	15	20 years
Knoxville, TN	(a)	259	111			259	111	370	(62)	1981	05/01/05	10	15 years
Conroe, TX	(a)	492	723			492	723	1,215	(119)	1999	07/01/05	14	30 years
Roanoke, VA	(a)	333	124			333	124	457	(62)	1975	05/01/05	10	15 years

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Description		Encumbrances	Initial Cost to Company: Land and Improvements	Initial Cost to Company: Buildings, Improvements	Cost Capitalized Subsequent to Acquisition including impairment: Improvements/ Improvements	Cost Capitalized Subsequent to Acquisition including impairment: Improvements/ Land and buildings	Gross Amount at December 31, 2010 (d): Land and Improvements	Gross Amount at December 31, 2010 (d): Buildings, Improvements	Gross Amount at December 31, 2010 (d): Total	Final Accum	Date of Construction	Date Acquired	Life in which depreciation in latest Income Statement is computed	
	Spokane, WA	(a)	518	193			518	193	711	(61)	1998	05/01/05	15	30 years
	Martinsburg, WV	(a)	173	20			173	20	193	(17)	1972	05/01/05	10	15 years
Movie theatres														
	Goodyear, AZ	(a)	3,881	4,392			3,881	4,392	8,273	(536)	1998	08/01/09	10	40 years
	Phoenix, AZ	(a)	2,652	11,495			2,652	11,495	14,147	(1,059)	1997	07/01/05	12	40 years
	Covina, CA	(c)	5,566	26,921			5,566	26,921	32,487	(2,482)	1997	06/23/04	14	40 years
	Colorado Springs, CO	(a)	1,892	1,732			1,892	1,732	3,624	(340)	1995	09/30/05	15	30 years
	Cedar Rapids, IA	(a)	2,521	5,461			2,521	5,461	7,982	(652)	1998	07/01/05	15	40 years
	Johnston, IA	(c)	3,046	10,213			3,046	10,213	13,259	(1,372)	1998	06/23/04	15	40 years
	Batavia, IL	(a)	4,705	7,561			4,705	7,561	12,266	(957)	1995	06/30/09	11	40 years
	Fort Wayne, IN	(a)	3,385	9,150	(7)	699	3,378	9,849	13,227	(1,122)	2005	11/30/05	15	40 years
	Noblesville, IN	(a)	4,122	10,274	(23)	(102)	4,099	10,172	14,271	(957)	2008	06/30/09	15	40 years
	Portage, IN	(a)	4,621	8,300			4,621	8,300	12,921	(1,129)	2007	06/30/09	15	40 years
	Overland Park, KS	(a)	4,935	12,281			4,935	12,281	17,216	(1,061)	2004	08/01/09	10	60 years
	Kansas City, MO	(a)	2,543	7,943			2,543	7,943	10,486	(788)	2003	07/01/05	14	50 years
	Lees Summit, MO	(a)	3,517	9,735			3,517	9,735	13,252	(1,157)	1999	07/01/05	14	40 years
	Missoula, MT	(c)	2,333	3,406			2,333	3,406	5,739	(430)	1998	06/23/04	15	40 years
	Durham, NC	(a)	1,630	2,685			1,630	2,685	4,315	(484)	1994	09/30/05	14	30 years
	Greensboro, NC	(a)	2,359	2,431			2,359	2,431	4,790	(377)	1996	09/30/05	15	30 years
	Raleigh, NC	(a)	3,636	8,833			3,636	8,833	12,469	(1,244)	1988	06/10/10	10	30 years
	Wilmington, NC	(a)	1,552	2,934			1,552	2,934	4,486	(435)	1997	09/30/05	15	30 years
	Winston-Salem, NC	(a)	1,567	2,140			1,567	2,140	3,707	(388)	1993	10/28/05	13	40 years
	Bixby, OK	(a)	5,585	10,101			5,585	10,101	15,686	(1,589)	1998	07/01/05	14	30 years
	Columbia, SC	(a)	2,115	2,091			2,115	2,091	4,206	(313)	1996	09/30/05	15	30 years
	Longview, TX	(a)	1,432	2,946			1,432	2,946	4,378	(453)	1995	09/30/05	15	30 years
	Martinsburg, WV	(a)	2,450	3,528			2,450	3,528	5,978	(588)	1998	09/30/05	13	30 years
Supermarkets														
	Amarillo, TX	5,668	3,559	4,575			3,559	4,575	8,134	(452)	1999	05/23/05	15	40 years
	Amarillo, TX	2,033	1,573	1,586			1,573	1,586	3,159	(230)	1989	05/23/05	9	30 years
	Amarillo, TX	2,040	1,574	1,389			1,574	1,389	2,963	(201)	1989	05/23/05	9	30 years
	Amarillo, TX	1,989	1,828	1,292			1,828	1,292	3,120	(188)	1988	05/23/05	9	30 years
	Burkburnett, TX	3,205	2,030	2,706			2,030	2,706	4,736	(284)	1997	05/23/05	12	40 years
	Childress, TX	750	747	934			747	934	1,681	(131)	1997	05/23/05	8	40 years
	Cleveland, TX	1,397	465	2,867			465	2,867	3,332	(569)	1991	12/01/05	15	40 years
	Corrigan, TX	727	395	630			395	630	1,025	(145)	1971	12/01/05	15	40 years
	Diboll, TX	950	775	872			775	872	1,647	(205)	1974	12/01/05	15	40 years
	Levelland, TX	2,630	1,651	2,158			1,651	2,158	3,809	(226)	1997	05/23/05	12	40 years
	Lubbock, TX	2,652	1,782	2,055			1,782	2,055	3,837	(215)	1997	05/23/05	12	40 years
	Lufkin, TX	894	1,178	352			1,178	352	1,530	(109)	1977	12/01/05	15	40 years
	Navasota, TX	1,286	781	1,499			781	1,499	2,280	(230)	1992	12/01/05	15	40 years
	Perryton, TX	882	1,029	597			1,029	597	1,626	(103)	1997	05/23/05	8	40 years
	Plainview, TX	4,433	620	5,415			620	5,415	6,035	(490)	2000	08/25/05	15	40 years
	Snyder, TX	3,519	2,062	2,963			2,062	2,963	5,025	(294)	1999	05/23/05	14	40 years
	Timpson, TX	335	253	312			253	312	565	(79)	1978	12/01/05	15	40 years
	Vernon, TX	2,936	1,791	2,550			1,791	2,550	4,341	(267)	1997	05/23/05	12	40 years
	Wichita Falls, TX	4,174		6,259				6,259	6,259	(1,131)	1997	05/23/05	13	20 years
Educational properties														
	Mesa, AZ	(a)	929	806			929	806	1,735	(174)	1980	07/01/05	15	30 years
	Phoenix, AZ	18,278	4,025	24,772			4,025	24,772	28,797	(2,274)	2002	05/16/05	15	40 years
	Phoenix, AZ	7,220	2,381	9,051			2,381	9,051	11,432	(878)	2002	05/16/05	15	40 years
	Phoenix, AZ	(a)	1,840	3,582			1,840	3,582	5,422	(444)	1975	07/01/05	15	40 years

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Description	Encumbrances	Initial Cost to Company: Land and Improvements	Initial Cost to Company: Buildings, Improvements	Cost Capitalized Subsequent to Acquisition including impairment: Improvements/ land	Cost Capitalized Subsequent to Acquisition including impairment: Improvements/ buildings	Gross Amount at December 31, 2010 (d): Land and Improvements	Gross Amount at December 31, 2010 (d): Buildings, Improvements	Total	Final Accum	Date of Construction	Date Acquired	Life in which depreciation in latest Income Statement is computed
Phoenix, AZ	(a)	1,912	1,673			1,912	1,673	3,585	(262)	1978	07/01/05	15 30 years
Tucson, AZ	(a)	983	3,782			983	3,782	4,765	(387)	1978	07/01/05	15 40 years
Reedley, CA	(a)	1,637	2,885			1,637	2,885	4,522	(619)	1950	12/07/05	15 30 years
Lone Tree, CO	(a)	2,020	3,748			2,020	3,748	5,768	(557)	1999	09/29/05	15 30 years
Duluth, GA	(a)	2,289	4,274			2,289	4,274	6,563	(599)	2007	12/23/08	15 50 years
Romeoville, IL	(a)	1,701	5,732	(17)	(57)	1,684	5,675	7,359	(381)	2008	11/07/08	15 50 years
Warrenville, IL	(a)	2,542	3,813			2,542	3,813	6,355	(617)	1999	09/29/05	15 30 years
Westmont, IL	(a)	1,375	5,087			1,375	5,087	6,462	(520)	2003	12/28/05	15 40 years
Leawood, KS	(a)	1,854	3,914			1,854	3,914	5,768	(605)	1999	09/29/05	15 30 years
Cummington, MA	(a)	1,177	4,439			1,177	4,439	5,616	(680)	1900	12/07/05	15 30 years
Alpena, MI	(a)	236	2,051			236	2,051	2,287	(425)	1936	03/17/06	14 20 years
Hendersonville, NC	(a)	692	2,469			692	2,469	3,161	(412)	1956	12/07/05	15 30 years
Mt. Laurel, NJ	(a)	1,404	5,655			1,404	5,655	7,059	(470)	2007	05/01/09	15 50 years
Columbus, OH	(a)	14	5,352	403	597	417	5,949	6,366	(795)	1980	03/17/06	14 30 years
Columbus, OH	(a)	1,399	3,203		1,500	1,399	4,703	6,102	(871)	2004	03/17/06	14 20 years
Prineville, OR	(a)	571	4,457			571	4,457	5,028	(682)	1940	12/22/05	15 30 years
Manchester Center, VT	(a)	1,198	4,688			1,198	4,688	5,886	(615)	1935	12/07/05	15 40 years
Grand Chute, WI	2,300	1,524	1,666			1,524	1,666	3,190	(258)	2005	07/18/05	15 50 years
Drugstores												
Millen, GA	(a)	810	1,312			810	1,312	2,122	(137)	1999	07/01/05	19 40 years
Thomasville, GA	(a)	931	1,933			931	1,933	2,864	(187)	1999	07/01/05	19 40 years
St. Clair Shores, MI	(a)	1,169	761			1,169	761	1,930	(105)	1991	05/02/05	15 30 years
Buffalo, NY	(a)	681	925			681	925	1,606	(94)	1993	07/01/05	19 40 years
Oneida, NY	(a)	1,315	1,411			1,315	1,411	2,726	(145)	1999	07/01/05	19 40 years
Uhrichsville, OH	(a)	617	2,345			617	2,345	2,962	(224)	2000	07/01/05	19 40 years
Philadelphia, PA	(a)	1,613	1,880			1,613	1,880	3,493	(188)	1999	07/01/05	20 40 years
Philadelphia, PA	(a)	733	1,087			733	1,087	1,820	(111)	1993	07/01/05	19 40 years
Moundsville, WV	(a)	706	1,002			706	1,002	1,708	(104)	1993	07/01/05	19 40 years
Recreational properties												
Tannersville, PA	(a)	10,946	40,479	329	2,727	11,275	43,206	54,481	(13,255)	1960	06/14/05	20 years
Austin, TX	7,619	4,425	8,142			4,425	8,142	12,567	(988)	2005	09/30/05	15 40 years
Conroe, TX	5,300	2,886	5,763			2,886	5,763	8,649	(659)	2004	09/30/05	15 40 years
Fort Worth, TX	4,969	2,468	5,418			2,468	5,418	7,886	(624)	2003	09/30/05	15 40 years
Grapevine, TX	4,969	2,554	5,377			2,554	5,377	7,931	(626)	2000	09/30/05	15 40 years
Lewisville, TX	4,306	2,130	4,630			2,130	4,630	6,760	(541)	1998	09/30/05	15 40 years
Plano, TX	5,963	3,225	6,302			3,225	6,302	9,527	(715)	2001	09/30/05	15 40 years
Convenience stores/car washes												
Cave Creek, AZ	(b)	2,711	2,201			2,711	2,201	4,912	(336)	1998	07/02/07	15 40 years
Phoenix, AZ	(b)	2,243	4,243			2,243	4,243	6,486	(588)	2001	07/02/07	15 40 years
Scottsdale, AZ	(b)	5,123	2,683			5,123	2,683	7,806	(567)	1991	07/02/07	15 40 years
Scottsdale, AZ	(b)	4,416	2,384			4,416	2,384	6,800	(398)	2000	07/02/07	15 40 years
Scottsdale, AZ	(b)	3,437	2,373			3,437	2,373	5,810	(502)	1996	07/02/07	15 40 years
Scottsdale, AZ	(b)	2,765	2,196			2,765	2,196	4,961	(365)	1995	07/02/07	15 40 years
Fernley, NV	(c)	2,070				2,070		2,070		1968	10/12/05	30 years
Reno, NV	(a)	1,096	6,892			1,096	6,892	7,988	(506)	2004	12/16/05	10 50 years
Health clubs/gyms												
Keizer, OR	(a)	1,208	4,089			1,208	4,089	5,297	(446)	1988	12/01/05	15 40 years
Salem, OR	(a)	1,509	5,635			1,509	5,635	7,144	(611)	2001	12/01/05	15 40 years
Salem, OR	(a)	1,214	4,911			1,214	4,911	6,125	(542)	1980	12/01/05	15 40 years

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		Initial Cost to Company		Cost Capitalized Subsequent to Acquisition including impairment		Gross Amount at December 31, 2010 (d)						Life in which depreciation in latest Income Statement is computed
Description	**Encumbrances**	**Land and Improvements**	**Buildings, Improvements**	**Improvements/ Land**	**Improvements/ building**	**Land and Improvements**	**Buildings, Improvements**	**Total**	**Final Accum**	**Date of Construction**	**Date Acquired**	
Salem, OR	(a)	1,589	3,834			1,589	3,834	5,423	(564)	1977	12/01/05	15 30 years
Salem, OR	(a)	951	2,670	1,008	4,992	1,959	7,662	9,621	(721)	1996	12/01/05	15 40 years
Interstate travel plazas												
Saint Augustine, FL	(a)	9,556	2,543			9,556	2,543	12,099	(1,021)	2001	07/01/05	13 40 years
Spiceland, IN	(a)	9,649	3,063			9,649	3,063	12,712	(1,280)	2001	07/01/05	13 40 years
Catlettsburg, KY	(a)	9,344	3,989			9,344	3,989	13,333	(1,468)	2001	07/01/05	13 40 years
Call centers												
Worcester, MA	7,950	2,048	8,705			2,048	8,705	10,753	(1,041)	1968	12/22/05	7 40 years
Columbia, SC	(c)	2,095	16,191			2,095	16,191	18,286	(2,118)	1990	09/09/05	30 years
Medical office												
Dallas, TX	(a)	1,633	21,854		2,000	1,633	23,854	25,487	(1,818)	2005	08/29/05	15 50 years
	$ 201,832	$ 1,330,452	$ 1,991,481	$ (15,395)	$ (7,096)	$ 1,315,057	$ 1,984,385	$ 3,299,442	$ (319,946)			

(a) Represents properties collateralized with Master Trust Debt of $984.9 million
(b) Represents properties in master leases collateralized with CMBS Debt of $812.0 million
(c) Represents unencumbered properties
(d) The aggregate cost of properties for federal income tax purposes is approximately $2.81 billion at December 31, 2010

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Reconciliation

	2010	2009	2008
Land, buildings, and improvements:			
Balance at the beginning of the year	$ 3,342,461	$ 3,529,636	$ 3,617,511
Additions:			
Acquisitions		400	132,705
Other			302
Held for sale reclassed as held for investment	2,736	11,592	
Deductions:			
Dispositions of land, buildings, and improvements	(5,139)	(174,790)	(129,623)
Held for sale	(3,161)		(37,062)
Impairment	(37,455)	(24,377)	(54,197)
Gross Real Estate Balance at close of the year	$ 3,299,442	$ 3,342,461	$ 3,529,636
Accumulated depreciation and amortization:			
Balance at the beginning of the year	$ (226,391)	$ (142,360)	$ (40,411)
Additions:			
Depreciation expense	(94,606)	(98,251)	(104,923)
Held for sale reclassed as held for investment		(242)	
Deductions:			
Dispositions of land, buildings, and improvements	697	14,462	2,974
Held for sale	354		
Balance at close of the year	(319,946)	(226,391)	(142,360)
Net Real Estate Investment	$ 2,979,496	$ 3,116,070	$ 3,387,276

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Spirit Finance Corporation

Schedule IV

Mortgage Loans on Real Estsate

as of December 31, 2010

(Amounts in thousands)

	Stated Interest Rate	Final Maturity Date [(1)]	Periodic payment terms	Face Amount	Carrying Amount of Mortgages
Mortgage					
Automotive dealer	9.25%	04/01/2018	Principal & Interest (2)	$ 8,000	$ 7,779
Restaurant	9.35%	12/1/2026	Principal & Interest	3,000	2,871
Distribution property	8.00%	01/01/2012	Principal & Interest (3)	347	341
Automotive parts and service < 3%	9.23%	03/01/2021	Principal & Interest (4)	20,000	18,510
Restaurants < 3%	9.0%-9.85%	Dec-2011 to Jul-2028	Principal & Interest (5)	29,254	26,881
				$ 60,601	$ 56,382

(1) Reflects current maturity of the investment and does not consider any options to extend beyond the current maturity
(2) Balloon payment of $6.7 million at maturity
(3) Balloon payment of $0.3 million at maturity
(4) Balloon payment of $6.8 million at maturity
(5) Balloon payment of $11.0 million at maturity

Reconciliation of Mortgage Loans on Real Estate	**2010**	**2009**	**2008**
Balance January 1,	$ 57,785	$ 69,580	$ 63,236
Additions during period			
New mortgage loans		447	8,445
Other capitalized loan origination costs		7	93
Deductions during period			
Collections of principal	(1,207)	(1,890)	(1,932)
Sales		(10,148)	
Amortization of premium	(191)	(201)	(233)
Amortization of capitalized loan origination costs	(5)	(10)	(29)
Mortage loans receivable December 31,	56,382	57,785	69,580
Mortgage loan loss provision	(1,020)		
	55,362	57,785	69,580
Equipment and other loans receivable	20,821	97,436	98,461
Provision for other loan loss	(2,557)	(2,400)	

	18,264	95,036	98,461
Total loans receivable	$ 73,626	$ 152,821	$ 168,041

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THIRTY NINE WEEKS ENDED OCTOBER 29, 2011 AND OCTOBER 30, 2010

(In thousands)

	October 29, 2011 (39 weeks)	October 30, 2010 (39 weeks)
REVENUES:		
Net sales	$ 1,389,281	$ 1,370,992
Licensed department rentals and other income	10,376	10,238
Total revenues	1,399,657	1,381,230
COSTS AND EXPENSES:		
Cost of sales (before depreciation and amortization)	966,039	954,404
Selling, general and administrative expenses	394,032	391,178
Depreciation and amortization expenses	13,536	11,658
Total costs and expenses	1,373,607	1,357,240
EARNINGS FROM OPERATIONS	26,050	23,990
INTEREST EXPENSE, NET	12,242	14,567
INCOME BEFORE INCOME TAXES	13,808	9,423
INCOME TAX PROVISION (BENEFIT)	4,906	(18,374)
NET INCOME	$ 8,902	$ 27,797

See accompanying notes to condensed consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

AS OF OCTOBER 29, 2011 AND JANUARY 29, 2011

(In thousands)

	October 29, 2011	January 29, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,564	$ 15,867
Receivables (net of allowance for losses of $680 and $601, respectively)	43,099	47,793
Merchandise inventories	441,143	344,681
Related party earnest deposit		3,235
Other current assets	6,373	5,040
Total current assets	506,179	416,616
PROPERTY AND EQUIPMENT, Net	87,412	77,153
INTANGIBLE ASSETS, Net	12,811	12,279
GOODWILL	926	926
DEFERRED INCOME TAXES	28,659	29,164
DEBT ISSUANCE COSTS	8,156	10,940
RELATED PARTY NOTE RECEIVABLE (Note 3)	28,002	25,506
OTHER ASSETS	2,401	2,470
TOTAL ASSETS	$ 674,546	$ 575,054
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 3,321	$ 4,226
Accounts payable	223,456	169,625
Accrued compensation and related taxes	18,080	16,967
Deferred income taxes	23,391	23,819
Other accrued liabilities	40,447	43,128
Accrued income and other taxes	23,143	24,308
Total current liabilities	331,838	282,073
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS Less current portion	252,326	204,543
OTHER LONG-TERM OBLIGATIONS	28,997	33,894
SHAREHOLDERS EQUITY:		
Common stock (par value $0.001: 1,000 shares authorized, issued and outstanding)		
Additional paid-in capital	24,647	24,269
Retained earnings	36,268	29,805
Accumulated other comprehensive income	470	470

Total shareholders equity	61,385	54,544
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 674,546	$ 575,054

See accompanying notes to condensed consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THIRTY NINE WEEKS ENDED OCTOBER 29, 2011 AND OCTOBER 30, 2010

(In thousands)

	October 29, 2011 (39 weeks)	October 30, 2010 (39 weeks)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,902	$ 27,797
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,536	11,658
Amortization of deferred financing costs	2,805	2,579
Non-cash related party interest income	(2,496)	(2,151)
Gain on the sale of property and equipment	(3,129)	(964)
Impairment charges	23	
Non-cash change in closed store reserves	(945)	
Deferred income taxes	1,684	6,251
Stock compensation expense	378	386
Change in assets and liabilities:		
Receivables	5,225	232
Income tax receivable	(531)	(788)
Merchandise inventories	(95,617)	(85,557)
Other current assets	(1,182)	(214)
Other long-term assets	69	(257)
Accounts payable and accrued liabilities	47,186	75,236
Unrecognized tax benefits (Note 2)	(125)	(21,474)
Other long-term obligations	(3,162)	(5,516)
Net cash provided by (used in) operating activities	(27,379)	7,218
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,125)	(13,411)
Proceeds from the sale of property and equipment	3,145	968
Payments for pharmacy customer lists	(1,773)	(1,079)
Related party transfer of assets (Note 3)	(1,656)	(718)
Net cash used in investing activities	(23,409)	(14,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid (Note 9)		(20,000)
Change in book cash overdraft	4,700	4,887
Borrowings under revolving credit facilities, net	49,162	35,592
Payment of financing costs	(30)	(9,234)
Repayment of other debt and capital lease obligations	(3,347)	(3,078)
Net cash provided by financing activities	50,485	8,167

CASH AND CASH EQUIVALENTS Beginning of period		15,867		15,611
Net increase (decrease) in cash and cash equivalents		(303)		1,145
CASH AND CASH EQUIVALENTS End of period	$	15,564	$	16,756
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	12,355	$	14,082
Income taxes (net of refunds)	$	6,492	$	6,148

See accompanying notes to condensed consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)

FOR THE THIRTY NINE WEEKS ENDED OCTOBER 29, 2011

(In thousands)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Total		Comprehensive
	Shares	Amount	Capital	Earnings	Income	Shares	Amount	Shares	Amount	Income
BALANCE January 29, 2011	1	$	$ 24,269	$ 29,805	$ 470		$	1	$ 54,544	
Stock compensation expense			378						378	
Related party transfer of assets (Note 3)				(2,439)					(2,439)	
Net income				8,902					8,902	$ 8,902
Comprehensive income										$ 8,902
BALANCE October 29, 2011	1	$	$ 24,647	$ 36,268	$ 470		$	1	$ 61,385	

See accompanying notes to condensed consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF OCTOBER 29, 2011 AND JANUARY 29, 2011,

AND FOR THE 39 WEEKS ENDED OCTOBER 29, 2011 AND OCTOBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

These interim results are not necessarily indicative of the results of the fiscal years as a whole because the operations of Specialty Retail Shops Holding Corp. (the Company) are highly seasonal. The fourth fiscal quarter has historically contributed a significant part of the Company s earnings due to the Christmas selling season.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto for the fiscal year ended January 29, 2011.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, an update to FASB Accounting Standards Codification (ASC) Topic 350, *Intangibles Goodwill and Other*. ASU No. 2011-08 simplifies how an entity is required to test goodwill for impairment. This guidance provides an entity the option to perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The update is not expected to have a material impact on the Company s reported results of operations or financial position.

2. INCOME TAXES

The Company utilizes an estimated annual effective tax rate in recording the provision for income taxes during interim periods; however, the tax consequences of items discrete to a specific period are recorded in that period. For the 39 week period ended October 29, 2011, the Company recorded tax expense of $4.9 million for an effective tax rate of 35.5%. For the 39 week period ended October 30, 2010, the Company recorded tax benefit of $18.4 million for an effective rate of (195%). The Company s effective tax rate differs from the statutory rate primarily due to adjustments to unrecognized tax benefits and related interest, state taxes, certain manufacturing tax benefits provided by Section 199 of the Internal Revenue Code and federal jobs credits. The tax benefit recorded during the 39 week period ended October 30, 2010 includes $21.1 million in previously unrecognized tax benefits and related interest resulting from final resolution of a U.S. federal tax examination of the Company s 2006 through 2008 income tax returns. Absent this discrete tax benefit, the Company s effective tax rate for the 39 weeks ended October 30, 2010 was 28.7%.

As of October 29, 2011, the Company had total unrecognized tax benefits of $2.4 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $1.6 million net of

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related deferred tax effect. During the 39 weeks ended October 29, 2011, unrecognized tax benefits remained unchanged. It is reasonably possible that unrecognized tax benefits may decrease by $2.4 million within the next 12 months due to expiration of statutory review periods.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. During the 39 weeks ended October 29, 2011, the Company recorded related interest expense of $0.2 million. As of October 29, 2011, the Company has recognized a liability for interest of $1.8 million and no penalties. Accrued interest is included within the related tax liability line in the Condensed Consolidated Balance Sheets.

The Company s U.S. federal income tax returns have been examined by the Internal Revenue Service through 2008. Years subsequent to 2008 remain open to examination. Tax returns in certain state jurisdictions for 2000 and subsequent tax years remain subject to examination by taxing authorities.

3. RELATED PARTY TRANSACTIONS

Management Agreement The Company was incorporated by an investment fund affiliated with Sun Capital Partners, Inc. (Sun Capital) in December 2005 for the purpose of acquiring all of the outstanding shares of common stock of Shopko Stores, Inc. The Company and an affiliate of Sun Capital (the Manager) are parties to a long-term management services agreement (the Management Agreement), whereby the Manager provides the Company with financial and management consulting services. On July 19, 2010, the Company and Manager amended and restated the Management Agreement, effective January 1, 2010. The amended and restated Management Agreement limits the reimbursement of out-of-pocket expenses and extends the term of the agreement to December 31, 2019. For the services to be rendered by the Manager, the Company pays the Manager an annual fee of $3.0 million, plus reimbursement of out-of-pocket expenses not to exceed $1.0 million during any 12 month period. Payment of the annual fee may be limited by certain covenants in the Company s Revolving Credit Facility (see Note 4). The covenant restrictions provide for the quarterly payment of $375,000 (not to exceed $1.5 million annually) as long as certain availability thresholds are met, plus out-of-pocket expenses. The remaining $1.5 million is accrued and payable only if certain cash flows are attained. Management fee expenses incurred in connection with the Management Agreement and included in selling, general and administrative expenses were $2.3 million for the 39 weeks ended October 29, 2011 and October 30, 2010, respectively. On April 19, 2011 and April 16, 2010, the Company paid $1.5 million in accrued management fees related to Fiscal 2010 and Fiscal 2009, respectively, as it met the cash flow thresholds test.

Subordinated Promissory Note On January 22, 2009, the Company s subsidiary, Shopko Stores Operating Co., LLC (Shopko Operating) made a loan of $20.0 million to Pamida Holding Company, Inc. (Pamida), a former subsidiary of the Company that became a separate company under a common Parent on February 3, 2007, and Pamida signed a Subordinated Promissory Note (the Shopko Note) payable to Shopko Operating. On January 28, 2010 Pamida and Shopko Operating amended and restated the Shopko Note. The effect of the amendment and restatement was to change the due date of the unpaid principal and any accrued and unpaid interest to January 28, 2015. Interest accrues on the unpaid principal amount of the Shopko Note at a rate per annum equal to 15% in the aggregate. The Shopko Note provides for monthly interest payments by Pamida to Shopko Operating at the rate of 3.25% per annum (not to exceed $650,000 annually) with the remaining 11.75% interest accruing and compounding by adding the amount of the accrued and unpaid interest to the principal amount of the Shopko Note. Interest income related to the Shopko Note recognized by the Company was $3.0 million and $2.6 million for the 39 weeks ended October 29, 2011 and October 30, 2010, respectively. This is reflected as a reduction in interest expense, net. Included in other long-term assets is $20.0 million for the principal amount of the Shopko Note as well as $8.0 million and $5.5 million of accrued and unpaid interest as of October 29, 2011 and January 29, 2011, respectively.

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Asset Transfers On July 26, 2010, the Company acquired two locations from Pamida. The purchase price of $0.7 million was based on estimated fair value and included the acquisition of prescription files, prescription drug inventory, land outlot parcels, and other tangible assets. The acquisition was financed utilizing a combination of available cash on hand and proceeds from borrowings under the Company s Revolving Credit Facility.

On January 13, 2011, the Company entered into an Asset Purchase Agreement with Pamida to acquire five additional locations. The purchase price of $4.9 million was based on estimated fair value and included the acquisition of prescription files, prescription drug inventory, customer contracts, inventory, fixed assets and other tangible personal property as well as assignment of the lease for each location. In accordance with the agreement, the Company paid Pamida a refundable earnest deposit of $3.2 million on January 13, 2011. The transaction closed on May 21, 2011, at which time the Company paid the remaining purchase price of $1.7 million and relieved the $3.2 million earnest deposit. The acquisition was financed utilizing a combination of available cash on hand and proceeds from borrowings under the Company s Revolving Credit Facility.

The acquisition of these seven locations was accounted for as a related party asset transfer between entities under common control in accordance with ASC Topic 805, *Business Combinations*. The amount paid by the Company to Pamida in excess of Pamida s carrying value net of deferred tax benefit was accounted for as a reduction in the Company s shareholders equity.

Operating results of the businesses acquired have been included in the Condensed Consolidated Statements of Operations from the acquisition dates forward. Proforma results of the Company, assuming the acquisitions had occurred at the beginning of the periods presented, would not be materially different from the results reported.

4. DEBT

The components of the Company s debt as of October 29, 2011 and January 29, 2011 are as follows:

(In thousands)	October 29, 2011	January 29, 2011
Revolving Credit Facility	$ 204,883	$ 155,721
Senior unsecured notes, 9.25% due March 15, 2022	5,678	5,677
Mortgages and other obligations	13,001	13,276
Capital lease obligations	32,085	34,095
	255,647	208,769
Less current portion of long-term debt and capital lease obligations	(3,321)	(4,226)
Long term debt and capital lease obligations	$ 252,326	$ 204,543

Revolving Credit Facility The Company has a senior secured asset-based revolving credit facility (the Revolving Credit Facility). The Revolving Credit Facility consists of two components, Revolver A and Revolver B, both of which are subject to borrowing base calculations based primarily on a percentage of inventory, accounts receivable, and customer relationship files. Revolver B loans are deemed to be the first loans made and the last loans repaid. Interest for both Revolver A and B is payable monthly. The Revolving Credit Facility is essentially secured by all the assets of the Company, excluding real property and equipment. The Revolving Credit Facility limits the number of store closings, payment of dividends, incurring new indebtedness, repurchase of common stock, capital expenditures and transactions with affiliates, including payment of management fees, and also requires the Company to meet certain financial performance covenants. The Company was in compliance with all covenants as of October 29, 2011.

On September 2, 2011 the Revolving Credit Facility was amended to update the borrowing base calculations to increase the maximum value of the prescription file sublimit for Revolver A as well as to decrease the minimum Revolver B interest rate by 150 basis points. The credit facility size remains at $447.5 million and the term did not change.

Revolver A has maximum available borrowings and letters of credit up to $400.0 million. The total outstanding letters of credit is limited to $145.5 million. Borrowings bear interest at a variable rate based on a certain formula (3.0% and 4.3% at October 29, 2011 and October 30, 2010, respectively). At October 29, 2011 and January 29, 2011 there were borrowings of $171.1 million and $121.4 million under Revolver A, respectively, with $210.4 million and $162.2 million of additional borrowings available, respectively.

Revolver B has maximum available borrowings up to $47.5 million. Borrowings bear interest at a variable rate based on a certain formula (11.5% and 13.9% at October 29, 2011 and October 30, 2010, respectively). At October 29, 2011 and January 29, 2011 there were borrowings of $33.7 million and $34.4 million, respectively, under Revolver B with no additional borrowings available.

The Company issues documentary letters of credit during the ordinary course of business as required by certain foreign vendors, as well as stand-by letters of credit as required by certain insurers and other parties. As of October 29, 2011 and January 29, 2011, the Company had outstanding stand-by letters of credit of $16.3 million and $21.1 million, respectively, and outstanding documentary letters of credit of $1.5 million and $1.4 million, respectively.

5. INTEREST EXPENSE

Interest Expense, Net on the Condensed Consolidated Statements of Operations is composed of the following:

	October 29, 2011 39 weeks	October 30, 2010 39 weeks
Interest expense	$ 15,246	$ 17,206
Interest income	(3,004)	(2,639)
Interest expense, net	$ 12,242	$ 14,567

6. BENEFIT PLANS

Stock-based Compensation Plans The Company s subsidiary Shopko Holding Company, Inc. (Shopko) maintains a stock option plan which provides for the granting of non-qualified stock options to various officers, directors and affiliates of Shopko. The options granted under the plan have a term of ten years and generally vest over five years. A summary of information related to the subsidiary stock options granted as of October 29, 2011 is as follows:

Shares Outstanding	Reserved for Option Grant	Stock Options Outstanding	Exercise Price Range	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
10,001,000	800,000	636,694	$5.15-$26.49	$15.55	$5.01

Stock-based compensation expense of $0.4 million was recognized under FASB ASC Topic 718, *Compensation Stock Compensation* for the 39 weeks ended October 29, 2011 and October 30, 2010, respectively. As of October 29, 2011, there was $0.5 million of total unrecognized compensation cost related to non-vested, share-based compensation plans, which is expected to be recognized over a weighted average period of approximately 5 years. The Company has used an estimated forfeiture rate of 25%.

Defined Contribution Plan Substantially all employees of the Company are covered by a defined contribution plan. The plan provides for an employer matching contribution equal to 100% of the first three percent and 50% of the next two percent of compensation contributed by participating employees. Employer matching contributions were $4.4 million and $4.9 million for the 39 weeks ended October 29, 2011 and October 30, 2010, respectively.

Other Benefits The Company also provides a Supplemental Retirement plan and a Postretirement Benefits plan to certain qualified employees. Both plans are unfunded and costs associated with these benefits are

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accrued during the employee s service period. The benefit obligation related to the Supplemental Retirement plan was $5.1 million and $5.2 million as of October 29, 2011 and January 29, 2011, respectively. The benefit obligation related to the Postretirement Benefits plan was $0.1 million as of October 29, 2011 and January 29, 2011, respectively.

The Condensed Consolidated Balance Sheets include current liabilities related to these two plans of $0.2 million and $0.3 million as of October 29, 2011 and January 29, 2011, respectively. Long-term liabilities related to these two plans were $5.0 million as of October 29, 2011 and January 29, 2011, respectively.

7. LEASE TERMINATION AND CLOSED STORE RESERVE

In June 2011, the Company entered into a lease termination agreement related to a previously closed location that was under long-term lease. Pursuant to the agreement, the Company made a cash payment of $1.3 million to settle the outstanding obligation related to the lease. As a result of the agreement, the Company released $1.1 million of the previously established reserve to selling, general, and administration expenses in the Condensed Consolidated Statements of Operations.

In Fiscal 2011, the Company closed 2 stores. One of the locations closed was owned by the Company. The Company sold the land, building, prescription files, prescription drug inventory, and other tangible assets for $3.3 million. A gain of $3.1 million was recorded as a result of the sale and is included in selling, general, and administration expenses in the Condensed Consolidated Statements of Operations.

The following table reflects changes in the liability related to closed stores due to new closures, changes in assumptions and cash payments for the 39 weeks ended October 29, 2011.

(In thousands)	October 29, 2011
Balance beginning of period	$ 11,282
Changes in assumptions about future sublease income, terminations, and changes in interest rates	(945)
Cash payments	(2,406)
Balance end of period	$ 7,931

8. RELATED PARTY GUARANTEES

As of October 29, 2011, the Company is a guarantor or co-obligor of certain obligations of its former subsidiary, Pamida Stores Operating Co., LLC. The guarantees or co-obligations consist of:

(In millions)	Total
Lease co-obligations	$ 6.1

The lease co-obligations relate to remaining lease obligations on a distribution facility in Lebanon, Indiana in which the Company remains secondarily liable if Pamida, the primary obligor, defaults.

9. DIVIDENDS PAID

On September 24, 2010, the Company paid a dividend in the amount of $20.0 million to shareholders of record. The dividend was financed with additional borrowings under the Company s Revolving Credit Facility (see Note 4).

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10. SUBSEQUENT EVENTS

The Company evaluated all events subsequent to the balance sheet date of October 29, 2011 through the date of issuance of these condensed consolidated financial statements, December 6, 2011, and has determined there were no additional subsequent events that required disclosure under FASB ASC Topic 855, *Subsequent Events.*

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Independent Auditors Report

The Board of Directors

Specialty Retail Shops Holding Corp. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Specialty Retail Shops Holding Corp. and subsidiaries (the Company) as of January 29, 2011 and January 30, 2010, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the years in the three-year period ended January 29, 2011. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Specialty Retail Shops Holding Corp. and subsidiaries as of January 29, 2011 and January 30, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended January 29, 2011 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

April 8, 2011

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE FISCAL YEARS ENDED JANUARY 29, 2011, JANUARY 30, 2010, AND JANUARY 31, 2009

(In thousands)

	January 29, 2011	January 30, 2010	January 31, 2009
REVENUES:			
Net sales	$ 1,945,132	$ 1,967,549	$ 2,027,623
Licensed department rentals and other income	14,347	14,484	13,382
Total revenues	1,959,479	1,982,033	2,041,005
COSTS AND EXPENSES:			
Cost of Sales (before depreciation and amortization)	1,356,394	1,389,171	1,440,686
Selling, general and administrative expenses	528,172	530,818	542,491
Depreciation and amortization expenses	16,151	16,225	11,117
Total costs and expenses	1,900,717	1,936,214	1,994,294
EARNINGS FROM OPERATIONS	58,762	45,819	46,711
INTEREST EXPENSE, NET	18,897	18,402	19,096
INCOME BEFORE INCOME TAXES	39,865	27,417	27,615
INCOME TAX (BENEFIT) PROVISION	(9,069)	9,548	11,357
NET INCOME	$ 48,934	$ 17,869	$ 16,258

See accompanying notes to consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JANUARY 29, 2011 AND JANUARY 30, 2010

(In thousands)

	January 29, 2011	January 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,867	$ 15,611
Receivables (net of allowance for losses of $649 and $624, respectively)	47,793	41,070
Merchandise inventories	344,681	335,011
Related party earnest deposit	3,235	
Other current assets	5,040	5,395
Total current assets	416,616	397,087
PROPERTY AND EQUIPMENT, Net	77,153	74,484
INTANGIBLE ASSETS, Net	12,279	8,866
GOODWILL (Note 15)	926	
DEFERRED INCOME TAXES	29,164	38,004
DEBT ISSUANCE COSTS	10,940	13,479
RELATED PARTY NOTE RECEIVABLE (Note 3)	25,506	22,583
OTHER ASSETS	2,470	2,033
TOTAL ASSETS	$ 575,054	$ 556,536
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and capital lease obligations	$ 4,226	$ 3,967
Accounts payable	169,625	149,944
Accrued compensation and related taxes	16,967	18,067
Deferred income taxes	23,819	17,767
Other accrued liabilities	43,128	49,169
Accrued income and other taxes	24,308	27,725
Total current liabilities	282,073	266,639
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS Less current portion	204,543	191,543
OTHER LONG-TERM OBLIGATIONS	33,894	62,117
LONG-TERM RELATED PARTY PAYABLE (Note 3)		28
SHAREHOLDERS EQUITY:		
Common stock (par value $0.001: 1,000 shares authorized, issued and outstanding)		
Additional paid-in capital	24,269	23,743
Retained earnings	29,805	11,144
Accumulated other comprehensive income	470	1,322

Shareholders equity	54,544	36,209
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 575,054	$ 556,536

See accompanying notes to consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JANUARY 29, 2011, JANUARY 30, 2010, AND JANUARY 31, 2009

(thousands)

	January 29, 2011	January 30, 2010	January 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 48,934	$ 17,869	$ 16,258
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	16,151	16,225	11,117
Amortization of deferred financing costs	3,440	3,281	2,359
Non-cash related party interest income	(2,923)	(2,519)	(64)
Gain on the sale of property and equipment	(993)	(21)	(335)
Impairment charges	672	802	58
Closed store reserve charges	131	2,500	
Deferred income taxes	14,891	(4,402)	20,801
Stock compensation expense	526	435	455
Change in assets and liabilities			
Receivables	(5,438)	5,391	(149)
Income tax receivable	(142)	10,563	(9,177)
Merchandise inventories	(9,005)	894	1,794
Other current assets	314	(158)	7,482
Other long-term assets	(436)	(256)	1,252
Accounts payable and accrued liabilities	17,052	17,868	(12,742)
Long-term related party payable		28	
Unrecognized tax benefits (Note 2)	(23,849)	(1,677)	603
Other long-term obligations	(5,868)	(2,173)	(1,620)
Net cash provided by operating activities	53,457	64,650	38,092
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(18,160)	(11,371)	(30,525)
Related party loan to Pamida			(20,000)
Proceeds from the sale of property and equipment	988	174	453
Payments for pharmacy customer lists	(1,829)	(3,860)	(5,360)
Related party transfer of assets, net (Note 3)	(3,509)		
Payments for commercial pharmacy acquisition (Note 15)	(5,500)		
Net cash used in investing activities	(28,010)	(15,057)	(55,432)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (Note 4)	(30,000)		
Change in book cash overdraft	(623)	(1,252)	(6,281)
(Repayments) borrowings under revolving credit facilities, net	19,653	(43,044)	29,654
Repayment of other debt and capital lease obligations	(4,136)	(4,217)	(4,132)
Proceeds from exercise of stock options			10
Purchase and cancellation of subsidiary stock			(27)
Payment of financing costs (Note 7)	(10,085)	(1,336)	(2,213)
Net cash provided by (used in) financing activities	(25,191)	(49,849)	17,011
CASH AND EQUIVALENTS Beginning of period	15,611	15,867	16,196

Net increase (decrease) in cash and cash equivalents	256	(256)	(329)
CASH AND CASH EQUIVALENTS End of period	$ 15,867	$ 15,611	$ 15,867
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 19,419	$ 18,374	$ 15,959
Income taxes (net of refunds)	$ 6,032	$ (6,653)	$ 2,092

See accompanying notes to consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE FISCAL YEARS ENDED JANUARY 29, 2011, JANUARY 30, 2010, AND JANUARY 31, 2009

(In thousands)

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Treasury Stock		Total		Comprehensive
	Shares	Amount	Capital	(Deficit)	Income	Shares	Amount	Shares	Amount	Income (Loss)
BALANCE February 2, 2008	1	$	$ 22,870	$ (22,983)	$ 1,193		$	1	$ 1,080	
Stock compensation expense			455						455	
Exercise of stock options			10						10	
Purchase and cancellation of subsidiary stock			(27)						(27)	
Net income				16,258					16,258	$ 16,258
Other comprehensive income pension and postretirement benefit adjustment					231				231	231
Comprehensive income										$ 16,489
BALANCE January 31, 2009	1	$	$ 23,308	$ (6,725)	$ 1,424		$	1	$ 18,007	
Stock Compensation expense			435						435	
Net income				17,869					17,869	$ 17,869
Other comprehensive loss pension and postretirement benefit adjustment					(102)				(102)	(102)
Comprehensive income										$ 17,767
BALANCE January 30, 2010	1	$	$ 23,743	$ 11,144	$ 1,322		$	1	$ 36,209	
Stock compensation expense			526						526	
Related party transfer of assets, net (Note 3)				(273)					(273)	
Net income				48,934					48,934	$ 48,934
Dividends paid (Note 4)				(30,000)					(30,000)	
Other comprehensive loss pension and postretirement benefit adjustment					(852)				(852)	(852)
Comprehensive income										$ 48,082
BALANCE January 29, 2011	1	$	$ 24,269	$ 29,805	$ 470		$	1	$ 54,544	

See accompanying notes to consolidated financial statements.

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SPECIALTY RETAIL SHOPS HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF JANUARY 29, 2011 AND JANUARY 30, 2010,

AND FOR THE FISCAL YEARS ENDED JANUARY 29, 2011, JANUARY 30, 2010,

AND JANUARY 31, 2009

1. ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Specialty Retail Shops Holding Corp. (the Company) was incorporated by an investment fund affiliated with Sun Capital Partners, Inc. (Sun Capital) in December 2005 for the purpose of acquiring all of the outstanding shares of common stock of Shopko Stores, Inc. On December 28, 2005 (the Acquisition Date), the Company acquired all the issued and outstanding shares of Shopko Stores, Inc. (the Acquisition). The Company is a wholly-owned subsidiary of SKO Group Holding, LLC (the Parent) which is owned by an affiliate of Sun Capital and other co−investors.

For the periods presented, the Company had a wholly-owned operating subsidiary, Shopko Holding Company, Inc. (Shopko), which is a retailer engaged in selling general merchandise and providing retail health services. Shopko stores are operated in Midwest, Western and Pacific Northwest states.

The Company also has a wholly-owned real estate subsidiary that owns certain real properties which are leased to Shopko or held for sale as of January 29, 2011, as well as a wholly-owned commercial pharmacy subsidiary that operates two closed shop pharmacies serving institutions and homes with more than 3,000 beds.

Basis of Presentation The Company operates on a 52/53-week fiscal year basis. The 2010 fiscal year was a 52 week period and ended on January 29, 2011 (Fiscal 2010). The 2009 fiscal year was a 52 week period and ended on January 30,2010 (Fiscal 2009). The 2008 fiscal year was a 52 week period and ended on January 31, 2009 (Fiscal 2008).

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and in banks as well as all highly liquid investments with an original maturity at date of purchase of three months or less. Included in cash and cash equivalents are credit card and debit card receivables from banks, which generally settle between two to five business days, of $7.3 million at January 29, 2011 and $6.7 million at January 30, 2010. The Company s cash management policy provides for controlled disbursement. As a result, the Company had outstanding checks in excess of funds on deposit at certain banks. These amounts which were $9.0 million as of January 29, 2011 and $9.7 million as of January 30, 2010, are included in trade accounts payable in the accompanying Consolidated Balance Sheets.

Receivables Receivables consist primarily of amounts collectible from third party insurance carriers, retail store customers for optical and pharmacy purchases, commercial pharmacy customers, governmental agencies such as Medicare and Medicaid, and merchandise vendors for promotional and advertising allowances (Vendor Allowances). Substantially all amounts are expected to be collected within one year. The Company assesses past due accounts based on contractual terms. The Company provides an allowance for doubtful accounts based on historical experience and on a specific identification basis.

Vendor Allowances The Company accounts for vendor consideration in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 605, *Revenue*

Recognition. The Company records vendor allowances and discounts in the Consolidated Statements of Operations when the purpose for which those monies were designated is fulfilled. Rebates and allowances received as a result of attaining defined purchase levels are billed or accrued over the incentive period based on the terms of the vendor arrangement and estimates of qualifying purchases during the rebate program period. These estimates are reviewed on a regular basis and adjusted to reflect changes in anticipated product sales and expected purchase levels. Allowances provided by vendors generally relate to inventory recently purchased and, accordingly, are reflected as reductions of cost of sales as merchandise is sold. Vendor allowances received for advertising or fixturing programs reduce the Company s expense or cost for the related advertising or fixturing program. The Company establishes a receivable for vendor allowances that are earned but not yet received. The majority of all year-end receivables associated with these activities are collected within the following fiscal quarter. The Company also maintains a valuation reserve in other accrued liabilities based on historical levels of vendor allowances that are paid back or not collected.

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. LIFO inventory reserve charges were $1.2 million, $3.0 million, and $0.5 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. The Company reduces inventory for estimated losses related to shrink and markdowns. The shrink estimate is based on historical losses determined by ongoing physical inventory counts.

Property and Equipment Property and equipment are stated at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, which are 15 to 40 years for buildings, 20 years for land improvements, and 5 to 10 years for fixtures and equipment. Leasehold improvements are depreciated over the period of the lease or the estimated useful life of the asset, whichever is shorter. Property under capital leases is amortized over the related lease term.

Goodwill and Intangible Assets Goodwill represents the excess of cost over fair value of net assets acquired. Intangible assets include customer relationships in the pharmacy business which are either acquired from third parties or a related party, or were recognized in connection with a business combination. These customer relationships are amortized on a straight-line basis over an estimated useful life of 10 years. Goodwill is not amortized and will be reviewed for impairment at least annually or more frequently when events occur that require additional review in accordance with FASB ASC Topic 350, *Intangibles Goodwill and Other*. No impairment testing was performed during Fiscal 2010 given the timing of the acquisition from which Goodwill was derived (see Note 15). As of January 29, 2011, there was $0.9 million of indefinite lived intangible assets. There were no such assets as of January 30, 2010.

Impairment of Long-Lived Assets In accordance with FASB ASC Topic 360, *Property, Plant and Equipment*, the Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives of long-lived assets may warrant revision or that the remaining carrying value of an asset may not be recoverable. The determination of possible impairment is based on assessment of the Company s ability to recover the carrying value of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be measured by comparing the carrying amount of the asset to its fair value. During Fiscal 2010 and Fiscal 2009, the Company determined that there were indicators of impairment at certain stores, completed tests for impairment, and recorded impairment of store assets. See Note 13 for further discussion regarding impairment of assets.

Closed Store Reserves Pursuant to the provisions of FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, the Company expenses when incurred all amounts related to the discontinuance of operations of stores identified for closure. For closed locations that are under long-term leases, the Company records a liability for the difference between the future lease payments and related costs from the date of closure through the end of the remaining lease term, net of expected sublease rental income. During Fiscal 2010 and Fiscal 2009, the Company recorded adjustments of estimates associated with previously closed stores. Also during Fiscal 2009, the Company recorded charges related to one store closure. See Note 13 for further discussion.

Debt Issuance Costs Costs related to the issuance of debt are capitalized and amortized to interest expense using the straight line method over the lives of the related debt, which approximates the effective interest method. Upon amendment of lines of credit, unamortized deferred financing fees are evaluated in accordance with FASB ASC Topic 470, *Debt*. The Company adjusts the amount of unamortized debt issuance costs as necessary based on the results of this evaluation.

Revenue Recognition Revenues from the sale of products is recognized at the time both title and the risk of ownership are transferred to the customer, which generally occurs upon delivery to the customer for internet sales and at the point of sale for retail transactions. Revenue is recognized net of expected returns, which are estimated based on historical experience. The Company classifies the reserve for expected returns in other current liabilities. Revenues from services are recognized when the services are rendered. Revenues from licensed departments are recorded at the net amounts to be received from licensees at the time customers take possession of the merchandise. For third party prescription sales, revenue is recognized at the time the prescription is filled, which is at or approximates the time at which the customer picks up the prescription. For commercial pharmacy sales, revenue is recognized at the time the prescription is filled, which is at or approximates the time the prescription is delivered to the customer. Revenue from gift card sales is recognized when the gift card is redeemed.

Fees for shipping and handling charged to customers in connection with internet sale transactions are included in sales. Costs related to shipping and handling are included in cost of sales. Taxes collected from customers are accounted for on a net basis and are excluded from sales.

Co-Branded Credit Card During the third quarter of Fiscal 2007, the Company introduced a co−branded credit card program with a third-party bank (the Bank) and Visa U.S.A. Inc. The Bank is the sole owner of the accounts issued under the program and absorbs all losses associated with non−payment by the cardholder and any fraudulent usage of the accounts by third parties. The Bank pays fees to the Company based on the number of credit card accounts opened/renewed and card usage. Certain marketing expenses of the Company are also reimbursed by the Bank. The initial upfront marketing fee is deferred and recognized into revenue over the estimated customer relationship period. Cardholder incentives are funded from the fees paid by the Bank to the Company. The Company is responsible for redeeming cardholder incentives offered for credit card usage, including the issuance of any gift certificates. Reward certificates are recognized as a liability when issued and recognized as retail revenue at the time the certificate is redeemed.

Vendor Concentration The Company purchases merchandise inventories from several hundred vendors worldwide. The Company had a major vendor that accounted for approximately 32%, 33%, and 33% of cost of sales in Fiscal 2010, Fiscal 2009, and Fiscal 2008 respectively. At January 29, 2011, the amount payable to this vendor was approximately $48.6 million.

Advertising The Company expenses advertising costs, net of vendor allowances, in the period incurred. Advertising expense was $29.7 million, $30.9 million, and $32.5 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively.

Insurance / Self-Insurance The Company retains a portion of the risk related to certain general liability, workers compensation, property loss and employee medical and dental claims. Liabilities associated with these losses include estimates of both claims filed and losses incurred but not yet reported. The Company estimates an ultimate cost based on an analysis of historical data. Workers compensation and general liabilities are recorded at an estimate of their net present value; other liabilities are not discounted. The Company maintains stop-loss coverage to limit the exposure related to certain risks.

Pre-opening Costs The Company expenses pre-opening costs of retail stores as incurred.

Income Taxes The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires that deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, using enacted tax rates. FASB ASC Topic 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The determination of the Company s provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Company s financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from taxing authorities, based solely on the technical merits of the position. When facts and circumstances change, the Company reassesses its uncertain tax positions and records any necessary adjustments in the financial statements as appropriate.

The Company recognizes interest and penalty expense related to uncertain tax positions in the provision for income tax expense. Accruals for income tax exposures, including penalties and interest, expected to be settled within the next year are included in accrued expenses and other current liabilities with the remainder included in other long-term obligations in the Consolidated Balance Sheets.

Stock-based Employee Compensation Plans The Company adopted FASB ASC Topic 718, *Compensation Stock Compensation*, which requires that the cost resulting from all share-based payment transactions be recognized as compensation cost over the vesting period based on the fair value of the instrument on the date of grant.

Fair Value of Financial Instruments The carrying amounts of cash and cash equivalents, receivables, accounts payable, accrued liabilities and short-term debt approximate their fair value as they are generally short term in nature. The fair value of the Company s long-term debt is estimated using quoted market values or 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. As of January 29, 2011 and January 30, 2010, the carrying amount of the Company s long-term debt approximated fair value as the interest rate is variable and similar to market rates.

It was not practicable to estimate the fair value of the related party note receivable from Pamida (see Note 3), an untraded company; that receivable is carried at its original principal amount of $20 million plus accrued interest in the Consolidated Balance Sheets. The receivable is secured by a subordinated lien on substantially all of Pamida s assets. The note was reviewed for impairment as of January 29, 2011 and the Company determined that no valuation reserve was necessary.

Recently Adopted Accounting Standards In June 2009, the FASB issued ASC Topic 105, *Generally Accepted Accounting Principles*. ASC Topic 105 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents have been superseded. This statement is not intended to change existing GAAP and as such did not have an impact on the consolidated financial statements of the Company. The Company has updated its references to reflect the Codification.

In May 2009, the FASB issued guidance that is now included in ASC Topic 855, *Subsequent Events*, and in February 2010, issued Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events*. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. For non−SEC filers, it requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to he issued. ASC Topic 855 and ASU No. 2010-09 are currently effective and the required disclosures regarding the evaluation of subsequent events are included in Note 16.

In June 2009, the FASB issued guidance that is now included in ASC Topic 860, *Transfers and Servicing*. This guidance improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a

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transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. This guidance is effective as of the beginning of fiscal years that begin after November 15, 2009, and its adoption on January 31, 2010 did not have a significant impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, an update to ASC Topic 350, *Intangibles Goodwill and Other*. ASU No. 2010-28 modifies Step 1 of the evaluation of goodwill impairment for reporting units with zero or negative carrying amounts. This guidance is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company will adopt this guidance during Fiscal 2011, and it is not expected to have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued guidance that is now included in ASC Topic 805, *Business Combinations*, and in December 2010, issued ASU No. 2010-29, *Business Combinations*. This guidance establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. ASU No. 2010-29 instructs entities recently involved in a merger or acquisition to disclose revenue and earnings of the combined entity in the same fashion a would be customary if the business combination had occurred as of the beginning of the prior annual reporting period. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company adopted ASC Topic 805 for all acquisitions completed on or after February 1, 2009. ASU No. 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, and therefore the Company will adopt the guidance for all acquisitions completed on or after January 30, 2011.

2. INCOME TAXES

The provision (benefit) for income taxes related to continuing operations includes the following:

(In thousands)	January 29, 2011	January 30, 2010	January 31, 2009
Current:			
Federal	$ (20,534)	$ 11,161	$ (8,482)
State	(3,455)	(176)	(502)
Deferred	14,920	(1,437)	20,341
Total provision	$ (9,069)	$ 9,548	$ 11,357

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

(In thousands)	January 29, 2011	January 30, 2010	January 31, 2009
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes-net of federal tax benefits	(1.3)%	2.2%	2.9%
Adjustment to uncertain tax positions	(54.8)%	(0.2)%	1.7%
Other	(1.7)%	(2.2)%	1.5%
Effective income tax rate	(22.8)%	34.8%	41.1%

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Components of the Company s net deferred tax asset (liability) are as follows:

(In thousands)	January 29, 2011	January 30, 2010
Deferred tax assets:		
Reserves and allowances	$ 9,185	$ 10,330
Restructuring and impairment reserves	5,080	6,499
Capital leases	20,761	21,953
Compensation and benefits	4,391	7,539
Intangibles and other	3,089	6,525
Valuation allowance	(498)	(498)
Total deferred tax assets	42,008	52,348
Deferred tax liabilities:		
Inventory valuation	(29,602)	(28,935)
Property and equipment	(6,518)	(2,765)
Other	(543)	(412)
Total deferred tax liabilities	(36,663)	(32,112)
Net deferred tax asset	$ 5,345	$ 20,236
Long-term deferred tax asset	$ 29,164	$ 38,004

At January 29, 2011, state net operating loss carryforwards were $1.1 million and will expire in varying amounts between 2013 and 2028 if not utilized. Similarly, state tax credit carryforwards are $1.6 million and will expire in varying amounts between 2013 and 2026 if not utilized.

Under FASB ASC Topic 740, *Income Taxes*, management is obligated to evaluate the likelihood of realizing deferred tax assets. A valuation allowance is required if, based upon available evidence, it is more likely than not that all or some portion of the assets will not be realized. Based upon its analysis, a $0.5 million valuation allowance, excluding Federal benefit, was recorded for deferred tax assets related to certain state tax credit carryforwards as of January 29, 2011. Management believes the remaining recorded amount of deferred tax assets as of January 29, 2011 will more likely than not be realized, and that a valuation allowance is not required based upon its evaluation of available evidence that includes a history of operating profitability, reversing taxable temporary differences and expectations of future earnings.

The Company had total unrecognized tax benefits of $3.0 million as of January 29, 2011, $29.2 million as of January 30, 2010, and $27.5 million as of January 31, 2009 included in other long-term obligations. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $2.0 million as of January 29, 2011, net of related deferred tax effect. The Company believes it is reasonably possible that unrecognized tax benefits will decrease by $3.0 million within the next twelve months, of which only $2.0 million would affect the effective tax rate.

The following table provides a reconciliation of the Company s unrecognized tax benefits.

(In thousands)	January 29, 2011	January 30, 2010	January 31, 2009
Balance at beginning of year	$ 29,225	$ 27,452	$ 28,145
Additions based on tax positions taken during the current year		4,483	
Additions based on tax positions taken during prior year	149		
Reduction for tax position taken in prior year	(4,483)		
Statute expiration	(21,880)	(2,710)	(693)

Balance at end of year	$ 3,011	$ 29,225	$ 27,452

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Related to the unrecognized tax benefits noted above, the Company recognized interest expense (benefit) of ($5.1) million, $1.0 million, and $1.8 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. In total, the Company has recognized a liability for interest of $1.6 million as of January 29, 2011, $6.7 million as of January 30, 2010, and $5.7 million as of January 31, 2009. The amounts are included in other long-term obligations. The Company has not recorded any accruals for penalties on the uncertain tax positions.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In general, filed tax returns remain subject to examination by the Federal tax jurisdiction for Fiscal 2009 and thereafter and by state jurisdictions for Fiscal 2000 and thereafter. The Company s U.S. Federal income tax returns have been examined by the Internal Revenue Service through Fiscal 2008.

3. RELATED PARTY TRANSACTIONS

Management Agreement The Company and an affiliate of Sun Capital (the Manager) are parties to a long-term management services agreement (the Management Agreement), whereby the Manager provides the Company with financial and management consulting services. On July 19, 2010, the Company and Manager amended and restated the Management Agreement, effective January 1, 2010. The amended and restated Management Agreement limits the reimbursement of out-of-pocket expenses and extends the term of the agreement to December 31, 2019. For the services to be rendered by the Manager, the Company pays the Manager an annual fee of $3.0 million, plus reimbursement of out-of–pocket expenses not to exceed $1.0 million during any 12 month period. Payment of the annual fee may be limited by certain covenants in the Company s Revolving Credit Facility (see Note 7). The covenant restrictions provide for the quarterly payment of $375,000 (not to exceed $1.5 million annually) as long as certain availability thresholds are met, plus out-of-pocket expenses. The remaining $1.5 million is accrued and payable only if certain cash flows are attained. Management fee expenses incurred in connection with the Management Agreement and included in selling, general and administrative expenses were $3.0 million for each of the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009. On April 16, 2010, the Company paid $1.5 million in accrued management fees related to Fiscal 2009 as it met the cash flow thresholds test. On January 29, 2010 and April 24, 2009, the Company paid $1.4 million and $0.1 million, respectively, in management fees included in other accrued liabilities related to Fiscal 2008.

In addition, the Management Agreement also provides that, upon the occurrence of certain events (including and without limitation refinancings, restructurings, equity or debt offerings, acquisitions, mergers and divestitures), the Company shall pay to the Manager a fee for its consulting services equal to 1% of the aggregate consideration paid to or by the Company in connection with such event unless prohibited by the Company s Revolving Credit Facility. During Fiscal 2010, the Company expensed and paid to the Manager aggregate fees of $380,000, in accordance with the terms of the Master Agreement. No such accruals or payments were made in Fiscal 2009 or Fiscal 2008. Sun Capital, Manchester Securities Corp., and KLA-Shopko, LLC or their respective affiliates own 70%, 20%, and 10%, respectively, of the Parent.

Pamida Holding Company, Inc. (Pamida) Tax Sharing Agreement On January 31, 2007, the Company entered into a tax sharing agreement with Pamida, a former subsidiary of the Company that became a separate company under a common Parent on February 3, 2007. The tax sharing agreement documented that the Company and Pamida agreed upon an equitable method for determining the share of consolidated federal tax burdens and benefits attributable to each company for the taxable year 2006, and any adjustments to prior years consolidated federal income tax returns commencing with the taxable year beginning on February 2, 2003. Pamida agreed to pay an amount equal to its tax liability calculated as if it had been filing on a standalone basis. The Company agreed to pay Pamida an amount equal to the difference between the amount of the liability actually paid and its tax liability calculated as if it had been filing on a standalone basis. For the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, Pamida paid the Company $0.0 million, $0.1 million, and $0.0 million, respectively, pursuant to this agreement. As of January 29, 2011 and January 30, 2010, there was no amount unpaid under the Tax Sharing Agreement.

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Pamida Stores Operating Co., LLC (Pamida Operating) Master Transition Services Agreement and Distribution Services Agreement On April 1, 2006, the Company s subsidiary, Shopko Stores Operating Co., LLC, (Shopko Operating) entered into a two year Master Transition Services Agreement (the TSA) with Pamida Operating, a subsidiary of Pamida. The TSA was entered into in conjunction with a corporate organizational change, and covers the provision of certain services, benefit programs and products during a transition period while Pamida Operating assembled or acquired internal resources, staff and systems to provide internally such services and functions for its own benefit. The scope and nature of the services included information systems, human resource services, including payroll and benefits, pharmacy third party administration services and insurance services, distribution services and other services. The Transition Services Agreement terminated on May 31, 2008. Transition service fees received under the TSA agreement and included as a reduction to selling, general and administrative expenses are $0.0 million, $0.0 million, and $0.5 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. Effective February 4, 2007, Shopko Operating and Pamida Operating entered into a separate Distribution Services Agreement (the DSA) that covers all warehousing and distribution services previously covered under the TSA. Shopko Operating receives a fee from Pamida Operating for these services. Distribution service fees received from Pamida Operating and included as a reduction to cost of sales were $6.3 million, $6.1 million, and $6.9 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively.

Subordinated Promissory Note On January 22, 2009, Shopko Operating made a loan of $20.0 million to Pamida and Pamida signed a Subordinated Promissory Note (the Shopko Note) payable to Shopko Operating. On January 28, 2010, Pamida and Shopko Operating amended and restated the Shopko Note. The effect of the amendment and restatement was to change the due date of the unpaid principal and any accrued and unpaid interest to January 28, 2015. Interest accrues on the unpaid principal amount of the Shopko Note at a rate per annum equal to 15% in the aggregate. The Shopko Note provides for monthly interest payments by Pamida to Shopko Operating at the rate of 3.25% per annum payable monthly (not to exceed $650,000 annually) with the remaining 11.75% interest accruing and compounding by adding the amount of the accrued and unpaid interest to the principal amount of the Shopko Note. Interest income related to the Shopko Note recognized by the Company was $3.6 million, $3.2 million, and $0.1 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. This is reflected as a reduction in interest expense, net. Included in other long-term assets is $20.0 million for the principal amount of the Shopko Note as well as $5.5 million and $2.6 million of accrued and unpaid interest as of January 29, 2011 and January 30, 2010, respectively.

Asset Transfer On July 26, 2010, the Company acquired two locations from Pamida. The purchase price of $0.7 million was based on estimated fair market value and included the acquisition of prescription files, prescription drug inventory, land outlot parcels, and other tangible assets. The acquisition was financed utilizing a combination of available cash on hand and through borrowings under the Company s Revolving Credit Facility.

The acquisition of these two locations was accounted for as a related party asset transfer between entities under common control in accordance with ASC Topic 805, *Business Combinations*. The amount paid by the Company to Pamida in excess of Pamida s carrying value net of deferred tax benefit was accounted for as a reduction in the Company s shareholders equity.

Operating results of the businesses acquired have been included in the Consolidated Statements of Operations from the acquisition date forward. Proforma results of the Company, assuming the acquisition had occurred at the beginning of the periods presented, would not be materially different from the results reported.

On January 13, 2011, the Company entered into an Asset Purchase Agreement with Pamida to acquire five additional locations. The transaction is expected to close during the 13 weeks ending July 30, 2011. The transaction will include the acquisition of prescription files, customer contracts, fixed assets and other tangible personal property as well as assignment of the lease for each location. The agreement provides the

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Company the option to acquire certain inventory at a value to be agreed upon separately by the Company and Pamida. In accordance with the agreement, the Company paid Pamida a refundable earnest deposit of $3.2 million on January 13, 2011, which represents a substantial portion of the purchase price and is included in other current assets on the Consolidated Balance Sheets. The acquisition of these five locations will be accounted for as a related party asset transfer between entities under common control in accordance with ASC Topic 805, *Business Combinations*.

4. DIVIDENDS PAID

During Fiscal 2010, the Company paid dividends in the amount of $30.0 million to shareholders of record. The dividends were financed with additional borrowings under the Company s Revolving Credit Facility (see Note 7). There were no dividends paid in Fiscal 2009 or Fiscal 2008.

5. PROPERTY AND EQUIPMENT

Property and equipment as of January 29, 2011 and January 30, 2010 includes:

(In thousands)	January 29, 2011	January 30, 2010
Property and equipment at cost:		
Land	$ 454	$ 454
Buildings	243	243
Equipment	80,028	67,682
Leasehold improvements	36,821	30,352
Property under construction	1,803	2,642
Property under capital leases	6,495	6,680
Total property and equipment	125,844	108,053
Less accumulated depreciation and amortization	(48,691)	(33,569)
Property and equipment net	$ 77,153	$ 74,484

Depreciation expense was $14.9 million, $15.3 million, and $10.7 million for the 52 weeks ended January 29, 2011, January 30, 2010 and January 31, 2009, respectively.

6. INTANGIBLE ASSETS

Intangible assets as of January 29, 2011 and January 30, 2010 are as follows:

(In thousands)	January 29, 2011	January 30, 2010
Customer relationships	$ 14,953	$ 10,274
Less accumulated amortization	(2,674)	(1,408)
Intangible assets net	$ 12,279	$ 8,866

Amortization expense was $1.3 million, $0.9 million, and $0.4 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. Annual amortization of intangible assets for each of the next five years is $1.5 million per year.

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7. DEBT

The components of the Company s debt as of January 29, 2011 and January 30, 2010 are as follows:

(In thousands)	January 29, 2011	January 30, 2010
Revolving Credit Facility	$ 155,721	$ 136,067
Senior unsecured notes, 9.25% due March 15, 2022	5,677	5,674
Mortgages and other obligations	13,276	13,745
Capital lease obligations	34,095	40,024
	208,769	195,510
Less current portion of long-term debt and capital lease obligations	(4,226)	(3,967)
Long-term debt and capital lease obligations	$ 204,543	$ 191,543

Revolving Credit Facility The Company has a senior secured asset-based revolving credit facility (the Revolving Credit Facility). The Revolving Credit Facility consists of two components, Revolver A and Revolver B, both of which are subject to borrowing base calculations based primarily on a percentage of inventory, accounts receivable, and customer relationship files. Revolver B loans are deemed to be the first loans made and the last loans repaid. Interest for both Revolver A and B is payable monthly. The Revolving Credit Facility is essentially secured by all the assets of the Company, excluding real property and equipment. The Revolving Credit Facility limits the number of store closings, payment of dividends, incurring new indebtedness, repurchase of common stock, capital expenditures and transactions with affiliates, including payment of management fees, and also requires the Company to meet certain financial performance covenants. The Company was in compliance with all covenants as of January 29, 2011.

In Fiscal 2008, the Company amended its Revolving Credit Facility to modify the definition of excess cash flow, modify the financial performance covenants, increase the Revolver B tranche by $5.0 million and provide for the $20.0 million related-party subordinated loan to Pamida. As a result of this amendment, the Company paid fees of approximately $2.2 million, which are being amortized over the remaining term of the facility, in accordance with FASB ASC Topic 470, *Debt*.

In Fiscal 2009, the Company amended and restated its Revolving Credit Facility for the primary purpose of extending the term for four additional years, through January 28, 2014. The credit facility size did not change and remained at $447.5 million. Certain other terms and conditions of the Revolving Credit Facility were amended, including the interest rate spreads on Revolver A LIBOR and Revolver A Base rate loans, which were increased by 100 and 125 basis points, respectively. The minimum Revolver B interest rate increased by 87.5 basis points. As a result of this amendment, the Company capitalized additional fees of approximately $10.2 million, which were added to unamortized capitalized fees of $2.9 million and are being amortized over the remaining term of the facility, in accordance with FASB ASC Topic 470, *Debt*.

In Fiscal 2010, the Company amended and restated its Revolving Credit Facility for the primary purpose of securing the lender s consent to the payment of cash dividends not to exceed $30.0 million during Fiscal 2010, consent to the payment of one-time management fees not to exceed $380,000, and to reduce interest rates. Certain other terms and conditions of the Revolving Credit Facility were amended, including the interest rate spreads on Revolver A LIBOR and Revolver A base rate loans, which were both decreased by 150 basis points. The minimum Revolver B interest rate decreased by 87.5 basis points. The decrease in rates will result in approximately a $3.1 million reduction in annual interest expense based on the current level of borrowings. As a result of the amendments, the Company capitalized additional fees of approximately $0.9 million, which were added to unamortized capitalized fees of $10.9 million and are being amortized over the remaining term of the facility, in accordance with FASB ASC Topic 470, *Debt*. An immaterial portion of the $0.9 million in fees were accrued and unpaid as of January 29, 2011. As of January 29, 2011, the credit facility size remains at $447.5 million.

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Revolver A has maximum available borrowings and letters of credit up to $400.0 million. The total outstanding letters of credit is limited to $145.5 million. Borrowings bear interest at a variable rate based on a certain formula (4.2% and 4.7% at January 29, 2011 and January 30, 2010, respectively). At January 29, 2011 and January 30, 2010, there were borrowings of $121.4 million and $102.0 million under Revolver A, respectively, with $162.2 million and $180.4 million of additional borrowings available, respectively.

Revolver B has maximum available borrowings up to $47.5 million. Borrowings bear interest at a variable rate based on a certain formula (13.0% and 13.9% at January 29, 2011 and January 30, 2010, respectively). At January 29, 2011 and January 30, 2010 there were borrowings of $34.4 million and $34.1 million, respectively, under Revolver B with no additional borrowings available.

The Company issues documentary letters of credit during the ordinary course of business as required by certain foreign vendors, as well as stand-by letters of credit as required by certain insurers and other parties. As of January 29, 2011 and January 30, 2010, the Company had outstanding stand-by letters of credit of $21.1 million and $26.0 million, respectively, and outstanding documentary letters of credit of $1.4 million and $2.4 million, respectively.

Mortgage and Other Obligations In connection with a sale-leaseback transaction in Fiscal 2006, the Company recognized $21.9 million of the proceeds received as financing obligations pursuant to the requirements of FASB ASC Topic 840, *Leases*, due to the Company s continuing involvement with four properties. The Company s continuing involvement with one of these properties ended in Fiscal 2007, at which time the Company recognized the sale of the property and the related reduction in debt. A total of $4.3 million of the gain on this transaction was deferred and is being recognized over the remaining life of the lease. Included in other accrued liabilities and other long-term obligations as of January 29, 2011 and January 30, 2010 is $3.5 million and $3.8 million, respectively, of deferred gain. The nature of the Company s continuing involvement with the remaining properties could change in the future at which time the transfer will be accounted for as a sale with the related reduction in long term debt.

Approximate annual maturities of the Company s long-term debt (excluding capital lease obligations) for the five fiscal years subsequent to January 29, 2011, are as follows:

(In thousands) Fiscal Year	Amount
2011	$ 502
2012	536
2013	156,298
2014	618
2015	663
2016 and thereafter	16,057
Total maturities	$ 174,674

8. LEASE OBLIGATIONS

The Company leases certain stores, office facilities, warehouses, computers and equipment. Operating and capital lease obligations are based upon contractual minimum rents and, for certain stores, amounts in excess of these minimum rents are payable based upon specified percentages of sales. Contingent rent is accrued over the lease term, provided that the achievement of the specified sales levels is probable. Certain leases include renewal or purchase options.

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Minimum future obligations under capital and operating leases in effect at January 29, 2011 are as follows:

(In thousands)

Fiscal Year	Capital Lease Obligations	Operating Lease Obligations
2011	$ 7,623	$ 86,019
2012	6,647	86,851
2013	6,666	86,268
2014	6,504	88,026
2015	5,550	87,990
Later	23,780	997,478
Total minimum future obligations	56,770	$ 1,432,632
Less amount representing interest	(22,675)	
Present value of minimum future obligations	34,095	
Obligations due within one year	(3,724)	
Long-term obligations	$ 30,371	

Total rental expense, net of sublease income, related to all operating leases, except the leases related to closed store locations as discussed in Notes 1 and 13, was $79.5 million, $78.8 million, and $76.5 million for the 52 weeks ended January 29,2011, January 30, 2010, and January 31, 2009, respectively.

A significant number of Shopko properties are leased pursuant to a master lease with a third party real estate investment trust (the REIT). On March 19, 2009, Shopko Operating executed an amendment to the master lease agreement with the REIT. The amendment modified the initial adjustment date schedule for the base rent. Shopko Operating also executed a lease supplement on the same date with the REIT. The supplement allowed for the deferral of certain lease payments. The total deferred obligation of $2.6 million was paid by the Company in Fiscal 2010. As of January 30, 2010, $1.6 million was presented on the Consolidated Balance Sheets in other long-term obligations related to this deferral. Both the amendment and supplement were accounted for in accordance with the provisions of FASB ASC Topic 840, *Leases*.

Certain operating leases require payments to be made on an escalating basis. The accompanying Consolidated Statements of Operations reflect rent expense on a straight-line basis over the term of those leases. However, the lease arrangements with the REIT and certain other lease agreements provide for an escalation provision every three years at the lesser of 6% or 1.25 times the consumer price index. Because of the contingent nature of the escalation provision contained in these lease agreements, the associated rent expense is not reflected in the Consolidated Statements of Operations on a straight-line basis over the term of the lease. A 6% escalation has been included in the schedule of minimum future obligations above, in accordance with the terms of the lease agreements. Certain leases require the Company to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises.

9. INTEREST EXPENSE

Net Interest Expense on the Consolidated Statements of Operations is composed of the following:

	January 29, 2011	January 30, 2010	January 31, 2009
Interest expense	$ 23,038	$ 21,682	$ 19,179
Interest income	(4,141)	(3,280)	(83)

Interest expense, net	$ 18,897	$ 18,402	$ 19,096

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10. BENEFIT PLANS

Stock-based Compensation Plans The Company s subsidiary, Shopko, maintains a stock option plan which provides for the granting of non-qualified stock options to various officers, directors and affiliates of Shopko. The options granted under the plan have a term of ten years and generally vest over five years. A summary of information related to the subsidiary stock options granted as of January 29, 2011 is as follows:

Shares Outstanding	Reserved for Option Grant	Stock Options Outstanding	Exercise Price Range	Weighted Average Exercise Price	Weighted Average Fair Value At Grant
10,001,000	749,000	690,927	$5.15-$26.71	$16.17	$4.83

Stock-based compensation expense of $0.5 million, $0.4 million, and $0.5 million was recognized under FASB ASC Topic 718, *Compensation Stock Compensation* for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively. As of January 29, 2011, there was $1.0 million of total unrecognized compensation cost related to non-vested, share-based compensation plans, which is expected to be recognized over a weighted average period of approximately 5 years. The Company has used an estimated forfeiture rate of 25%. The fair value of the options granted was estimated using the Black−Scholes option pricing model based on the estimated market value of the respective subsidiaries at the grant date and the weighted average assumptions specific to the underlying options, as follows:

	All options granted prior to February 2, 2008	Options granted February 2008	Options granted May 2008	Options granted May 2009	Options granted December 2009	Options granted November 2010
Risk-free interest rate	5.0%	3.21%	3.46%	2.81%	3.07%	2.02%
Expected volatility	22.05%	23.36%	23.36%	24.46%	24.46%	24.44%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected option life (years)	6.5	6.5	6.5	6.5	6.5	6.5
Weighted Average Fair Value	$ 3.01	$ 7.95	$ 7.71	$ 6.65	$ 3.66	$ 7.13

The following table summarizes the Company s stock option activity for Fiscal 2010, Fiscal 2009 and Fiscal 2008:

	2010		2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance at beginning of year	697,621	$ 15.78	711,894	$ 15.72	454,394	$ 10.80
Granted	40,000	24.12	232,500	11.95	272,500	23.63
Forfeited/expired	46,694	17.05	246,773	12.01	13,000	11.25
Exercised					2,000	5.15
Balance at end of year	690,927	$ 16.17	697,621	$ 15.78	711,894	$ 15.72

Defined Contribution Plan Substantially all employees of the Company are covered by a defined contribution plan. The plan provides for an employer matching contribution equal to 100% of the first three percent and 50% of the next two percent of compensation contributed by participating employees. Employer matching contributions were $5.8 million, $5.5 million, and $5.7 million for the 52 weeks ended January 29, 2011 January 30, 2010, and January 31, 2009, respectively.

Other Benefits The Company also provides a Supplemental Retirement plan and a Postretirement Benefits plan to certain qualified employees. Both plans are unfunded and costs associated with these benefits are accrued during the employee s service period. The benefit obligation related to the Supplemental Retirement plan was $5.2 million and $4.2 million as of January 29, 2011 and January 30, 2010, respectively. The benefit obligation related to the Postretirement Benefits plan was $0.1 million and $0.1 million as of

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January 29, 2011 and January 30, 2010, respectively. The Postretirement Benefits plan has been terminated and no new participants may enroll as of January 1, 2011. Existing retirees covered in accordance with eligibility rules as of December 31, 2010 may continue coverage to age 65.

The balance sheet includes current liabilities related to these two plans of $0.3 million as of January 29, 2011 and January 30, 2010. Long-term liabilities related to these two plans were $5.0 million and $4.0 million as of January 29, 2011 and January 30, 2010, respectively. Net periodic benefit costs included in selling, general and administrative expense were ($0.1) million, ($0.1) million, and $0.0 million for the 52 weeks ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively.

The expected amount of the unrecognized net gains included in accumulated other comprehensive income to be amortized as a component of net periodic benefits cost during the 52 weeks ending January 28, 2012 is $0.1 million.

11. RESTRUCTURING COSTS

During the 52 weeks ended January 29, 2011, the Company announced it had entered into a partnership with a leading global information technology services provider for information technology services beginning September 4, 2010. The decision to outsource these functions was based primarily on management s objective to commence long-term business and system transformation to support the Company s growth strategy. The transition occurred during the second and third quarters and resulted in the elimination of approximately 70 employee positions in the third quarter. During the 52 weeks ended January 30, 2010, the Company also implemented various management realignment actions.

During the 52 weeks ended January 29, 2011, the Company recorded a $1.6 million restructuring charge for employee termination benefits and other transition costs related to the information technology services outsourcing, and during the 52 weeks ended January 30, 2010, the Company recorded a $1.9 million charge related to management realignment actions, comprised of severance and benefit costs, implemented during the year. These charges were recorded as a component of selling, general and administrative expense in the Consolidated Statements of Operations for the respective years. During the 52 weeks ended January 29, 2011, $1.4 million was paid for employee termination benefits and other transition costs for information technology services outsourcing and $0.2 million was paid for management realignment actions. During the 52 weeks ended January 30, 2010, $1.6 million was paid for management realignment actions. As of January 29, 2011 and January 30, 2010, respectively, a liability balance of $0.1 million and $0.3 million related to these restructuring actions is included in other accrued liabilities in the Consolidated Balance Sheets.

12. LITIGATION

During the 52 weeks ended January 29, 2011, the Company received a subpoena from the Office of Inspector General, United States Department of Health and Human Services (OIG) in connection with an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The subpoena requested retail pharmacy claims data for dual eligible customers (i.e., customers with both Medicaid and private insurance coverage), information concerning the Company s retail pharmacy claims processing systems, copies of pharmacy payor contracts and other documents and records. The Company cooperated with these requests for information and has been informed that the government will not intervene at this time in a previously-filed qui tam action. The complaint, filed in April 2010 in the United States District Court for the Western District of Wisconsin, has been unsealed and was served during March 2011.

The Company believes the above described action to be without merit and intends to contest all allegations. The Company, however, cannot predict with certainty the timing or outcome of this litigation.

In the normal course of business, the Company or its subsidiaries have been named as a defendant in various lawsuits. Some of these lawsuits involve claims for substantial amounts. Although the ultimate outcome of these lawsuits cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such suits will not have a material adverse effect on the consolidated financial statements of the Company.

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13. LEASE TERMINATION, IMPAIRMENT CHARGE AND CLOSED STORE RESERVE

During the 52 weeks ended January 30, 2010, the Company recorded charges totaling $1.2 million related to the closure of l store under a long term lease. The charges primarily consist of lease termination costs and impairment charges, which were recorded pursuant to FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, and are included in selling, general, and administration expenses in the Consolidated Statements of Operations. There is no remaining liability as of January 30, 2010 in the Consolidated Balance Sheets associated with this store closure.

During the 52 weeks ended January 29, 2011, the Company recorded charges totaling $0.1 million to increase the estimated liability for 3 previously closed locations that are under long-term leases and were vacated prior to the 52 weeks ended January 31, 2009. During Fiscal 2010, the outstanding obligations related to 2 of these previously closed locations were satisfied and no liability remains as of January 29, 2011 related to those 2 locations. During the 52 weeks ended January 30, 2010, the Company recorded charges totaling $2.5 million to increase the estimated liability for 5 previously closed locations that are under long-term leases and were vacated prior to the 52 weeks ended February 2, 2008. In each case, the Company increased the liability to reflect its revised estimate of the future lease payments and related costs to be incurred through the end of the remaining lease term, net of expected sublease rental income. These charges are recorded in selling, general, and administration expenses in the Consolidated Statements of Operations, and were primarily driven by the deterioration of the commercial real estate market, which led to changes in assumptions about future sublease income. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

The following table reflects changes in the liability related to closed stores due to new closures, changes in assumptions and cash payments.

(In thousands)	January 29, 2011	January 30, 2010
Balance beginning of period	$ 13,306	$ 13,083
Changes in assumptions about future sublease income, terminations, and changes in interest rates	131	2,500
Cash payments	(2,155)	(2,277)
Balance end of period	$ 11,282	$ 13.306

During the 52 weeks ended January 29, 2011 and January 30, 2010, the Company recorded impairment charges of long-lived assets at 5 stores totaling $0.7 million and 4 stores totaling $0.8 million, respectively, which are included in selling, general, and administration expenses in the Consolidated Statements of Operations. These charges reflect the write-down of long-lived assets at stares as a result of the Company s impairment test comparing the carrying amount of the asset to its fair value based on estimated future cash flows and market conditions that indicate the carrying value of the asset may not be recoverable.

14. RELATED PARTY GUARANTEES

As of January 29, 2011, the Company is a guarantor or co-obligor of certain obligations of its fanner subsidiary, Pamida Operating. The guarantees or co-obligations consist of:

(In millions)	Total
Lease co-obligations	$ 7.3

The lease co-obligations relate to remaining lease obligations on a distribution facility in Lebanon, Indiana in which the Company remains secondarily liable if Pamida, the primary obligor, defaults.

15. ACQUISITIONS

On December 1, 2010, the Company acquired two closed shop pharmacies providing commercial pharmacy services to institutions from Health One, Inc. and its subsidiaries. The purchase price of $5.5 million was based on estimated fair market value and included the acquisition of customer contracts, prescription files,

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prescription drug inventory, equipment, and other tangible assets, less liabilities assumed. The acquisition was financed utilizing a combination of available cash on hand and through borrowings under the Company s Revolving Credit Facility.

The acquisition of these two locations was accounted for using the acquisition method in accordance with ASC Topic 805, *Business Combinations*. The purchase price allocation is not final.

The following table summarizes the preliminary allocation of purchase price based on the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

(In millions)	Purchase Price Allocation
Current assets	$ 1,818
Property and equipment	340
Intangible assets	2,850
Goodwill	926
Total assets acquired	5,934
Current liabilities	422
Total liabilities assumed	422
Net assets acquired	$ 5,512

Operating results of the businesses acquired have been included in the Consolidated Statements of Operations from the acquisition date forward. Proforma results of the Company, assuming the acquisition had occurred at the beginning of the periods presented, would not be materially different from the results reported.

16. SUBSEQUENT EVENTS

The Company evaluated all events subsequent to the balance sheet date of January 29, 2011 through the date of issuance of these consolidated financial statements, April 8, 2011, and has determined there are no additional subsequent events that required disclosure in the consolidated financial statements under FASB ASC Topic 855, *Subsequent Events*.

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Unaudited quarterly financial information is as follows:

(In thousands) Fiscal 2010	May 1, 2010 (13 weeks)	July 31, 2010 (13 weeks)	October 30, 2010 (13 weeks)	January 29, 2011 (13 weeks)	January 29, 2011 (52 weeks)
Net sales	$ 460,554	$ 442,371	$ 468,067	$ 574,140	$ 1,945,132
Gross margin (1)	139,018	136,050	141,520	172,150	588,738
Income from continuing operations	22,989	1,699	3,109	21,137	48,934
Net income	22,989	1,699	3,109	21,137	48,934

(In thousands) Fiscal 2009	May 2, 2009 (13 weeks)	August 1, 2009 (13 weeks)	October 31, 2009 (13 weeks)	January 30, 2010 (13 weeks)	January 30, 2010 (52 weeks)
Net sales	$ 458,626	$ 459,950	$ 475,424	$ 573,549	$ 1,967,549
Gross margin (1)	135,932	140,353	136,328	165,765	578,378
Income (loss) from continuing operations	(448)	3,661	1,465	13,191	17,869
Net income (loss)	(448)	3,661	1,465	13,191	17,869

(1) Gross margin is calculated as net sales less cost of sales.

* * * * * *

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Spirit Finance Corporation

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31. Other Expenses of Issuance and Distribution.
The following table itemizes the expenses incurred by us in connection with the issuance and registration of the securities being registered hereunder. All amounts shown are estimates except for the SEC registration fee and the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee and the NYSE listing fee.

SEC Registration Fee	$ 57,300
FINRA Filing Fee	50,500
NYSE Listing Fees	*
Accounting Fees and Expenses	*
Legal Fees and Expenses	*
Printing Fees and Expenses	*
Transfer Agent and Registrar Fees	*
Miscellaneous	*
Total	$ *

* To be completed by amendment.

Item 32. Sales to Special Parties.
None.

Item 33. Recent Sales of Unregistered Securities.
In connection with the debt conversion, based on the mid-point of the price range set forth on the front cover of the prospectus and assuming we issue shares in this offering, an aggregate of shares of our common stock will be issued to the TLC lenders upon the completion of this offering. All TLC lenders had a substantive, pre-existing relationship with us and all have been contractually bound prior to the filing of this registration statement with the SEC to receive such securities in the debt conversion. All of such persons are accredited investors as defined under Regulation D of the Securities Act. The issuance of such shares and units will be effected in reliance upon exemptions from registration provided by Section 4(2) under the Securities Act and pursuant to Rule 506 of Regulation D of the Securities Act.

Item 34. Indemnification of Directors and Officers.
Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains such a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires a Maryland corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. The MGCL permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them

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in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and:
  - was committed in bad faith; or
  - was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or if the director or officer was adjudged liable on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received.

In addition, the MGCL permits a Maryland corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking, which may be unsecured, by the director or officer or on the director s or officer s behalf to repay the amount paid if it shall ultimately be determined that the standard of conduct has not been met.

Our charter authorizes us to obligate our company and our bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding without requiring a preliminary determination of the director s or officer s ultimate entitlement to indemnification to:

- any present or former director or officer who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity; or
- any individual who, while a director or officer of our company and at our request, serves or has served as a director, officer, partner, member, manager, trustee, employee or agent of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us, with the approval of our board of directors, to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

We intend to enter into indemnification agreements with each of our directors and executive officers that will obligate us to indemnify them to the maximum extent permitted by Maryland law. The indemnification agreements will provide that, if a director or executive officer is a party or is threatened to be made a party to any proceeding by reason of his or her service as a director, officer, employee or agent of our company or as a director, officer, partner, member, manager or trustee of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other

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enterprise that he or she is or was serving in such capacity at our request, we must indemnify the director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, to the maximum extent permitted under Maryland law, including in any proceeding brought by the director or executive officer to enforce his or her rights under the indemnification agreement, to the extent provided by the agreement. The indemnification agreements will also require us to advance reasonable expenses incurred by the indemnitee within ten days of the receipt by us of a statement from the indemnitee requesting the advance, provided the statement evidences the expenses and is accompanied or preceded by:

- a written affirmation of the indemnitee s good faith belief that he or she has met the standard of conduct necessary for indemnification; and

- a written undertaking, which may be unsecured, by the indemnitee or on his or her behalf to repay the amount paid if it shall ultimately be established that the standard of conduct has not been met.

The indemnification agreements will also provide for procedures for the determination of entitlement to indemnification, including requiring such determination be made by independent counsel after a change of control of us.

In addition, our directors and officers may be entitled to indemnification pursuant to the terms of the partnership agreement of our operating partnership.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 35. Treatment of Proceeds from Stock Being Registered.

None.

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Item 36. Financial Statements and Exhibits.

(A) Financial Statements: see Index to Financial Statements.

(B) Exhibits: The following exhibits are filed as part of, or incorporated by reference into, this registration statement on Form S-11:

*1.1	Form of Underwriting Agreement
*3.1	Form of Articles of Amendment and Restatement of Spirit Finance Corporation, to be in effect upon the completion of this offering
*3.2	Form of Amended and Restated Bylaws of Spirit Finance Corporation, to be in effect upon the completion of this offering
*4.1	Form of Common Stock Certificate of Spirit Finance Corporation
#4.2	Amended and Restated Master Indenture dated as of March 17, 2006, between Spirit Master Funding, LLC, Spirit Master Funding II, LLC and Spirit Master Funding III, LLC, each a Delaware limited liability company, collectively as issuers, and Citibank, N.A., as indenture trustee
#4.3	Series 2005-1 Indenture Supplement dated as of July 26, 2005, between Spirit Master Funding, LLC and Citibank, N.A., as indenture trustee
#4.4	Series 2006-1 Indenture Supplement dated as of March 17, 2006, between Spirit Master Funding, LLC, Spirit Master Funding II, LLC and Citibank, N.A., as indenture trustee
#4.5	Series 2007-1 Indenture Supplement dated as of March 17, 2006, between Spirit Master Funding, LLC, Spirit Master Funding II, LLC, Spirit Master Funding III, LLC and Citibank, N.A., as indenture trustee
*5.1	Opinion of Venable LLP
*8.1	Opinion of Latham & Watkins LLP with respect to tax matters
*10.1	Form of Amended and Restated Agreement of Limited Partnership of Spirit Realty Finance, L.P., to be in effect upon the completion of this offering
#10.2	Amended and Restated Property Management and Servicing Agreement dated as of March 17, 2006, among Spirit Master Funding, LLC, Spirit Master Funding II, LLC and Spirit Master Funding III, LLC, each a Delaware limited liability company, collectively as issuers, Spirit Finance Corporation, a Maryland corporation, as property manager and special servicer, and Midland Loan Services, Inc., a Delaware corporation, as back-up manager
#10.3	Loan Agreement, dated as of May 31, 2006, among Spirit SPE Portfolio 2006-1, LLC and Spirit SPE Portfolio 2006-2, LLC, each a Delaware limited liability company, together as borrower, and Bank of America, National Association, as successor by merger to LaSalle Bank National Association, as trustee for the registered holders of Citigroup Commercial Mortgage Trust 2006-C4 Commercial Mortgage Pass-Through Certificates, Series 2006-C4, Bank of America, National Association, as successor by merger to LaSalle Bank National Association, as trustee for the registered holders of Deutsche Mortgage & Asset Receiving Corporation Commercial Mortgage Pass-Through Certificates, Series CD 2006-CD3, and Wells Fargo Bank, N.A., as trustee for the registered holders of COBALT CMBS Commercial Mortgage Trust 2006-C1 Commercial Mortgage Pass-Through Certificates, Series 2006-C1(each as successor-in-interest to Barclays Capital Real Estate Inc., a Delaware corporation, and Citigroup Global Markets Realty Corp., a New York corporation), collectively as lender

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#10.4	Loan Agreement, dated as of April 27, 2007, between Wells Fargo Bank, N.A., as trustee for the registered holders of Wachovia Bank Commercial Mortgage Trust, Commercial Mortgage Pass-Through Certificate Series 2007-C33 (as successor-in-interest to Barclays Capital Real Estate Inc., a Delaware corporation), as lender, and Spirit SPE Portfolio 2007-2, LLC, a Delaware limited liability company, as borrower
*10.5	Form of Second Amended and Restated Stockholder Rights Agreement among Spirit Finance Corporation and the persons named therein, to be in effect upon the completion of this offering
*10.6	Registration Agreement, dated as of July 8, 2011, among Spirit Finance Corporation and the persons named therein
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*10.8	Employment Agreement between Spirit Finance Corporation and Thomas H. Nolan, Jr.
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*10.12	Form of New Credit Agreement (for the revolving credit facility to be in effect upon the completion of this offering)
*10.13	Amended and Restated Credit Agreement, dated as of July 8, 2010, among Spirit Finance Corporation, Redford Holdco, LLC, the other guarantors party thereto, SPV Purchaser, Wilmington Trust Company (as administrative agent and as collateral agent) and the other lenders party thereto
*10.14	Conversion Agreement, dated as of July 8, 2010, among Spirit Finance Corporation and the TLC Lenders
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#10.16	Master Lease dated as of May 31, 2006, by and between Spirit SPE Portfolio 2006-1, LLC and Spirit SPE Portfolio 2006-2, LLC, each a Delaware limited liability company, collectively as landlord, and ShopKo Stores Operating Co., LLC, a Delaware limited liability company, as tenant, as amended
#10.17	Asset Purchase Agreement, dated as of June 30, 2011, between Spirit Finance Corporation and Spirit Finance Capital Management, LLC
#10.18	Amendment No. 1 to Asset Purchase Agreement, dated as of August 22, 2011, between Spirit Finance Corporation and Spirit Finance Capital Management, LLC
*21.1	List of Subsidiaries of Spirit Finance Corporation
23.1	Consent of Ernst & Young LLP
23.2	Consent of KPMG LLP
*23.3	Consent of Venable LLP (contained in Exhibit 5.1)
*23.4	Consent of Latham & Watkins LLP (contained in Exhibit 8.1)
#23.5	Consent of Rosen Consulting Group
#24.1	Power of Attorney (included on the Signature Page)
99.1	Rosen Consulting Group Market Study

* To be filed by amendment.
\# Previously filed.

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Item 37. Undertakings.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

The undersigned registrant hereby further undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Scottsdale, Arizona, on this 21st day of December, 2011.

SPIRIT FINANCE CORPORATION

By: /s/ THOMAS H. NOLAN, JR.
Thomas H. Nolan, Jr., Chairman of the Board of Directors and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS H. NOLAN, JR. Thomas H. Nolan, Jr.	Chairman of the Board of Directors and Chief Executive Officer (principal executive officer)	December 21, 2011
/s/ PETER M. MAVOIDES Peter M. Mavoides	President and Chief Operating Officer	December 21, 2011
/s/ MICHAEL A. BENDER Michael A. Bender	Chief Financial Officer, Senior Vice President, Assistant Secretary and Treasurer (principal financial and accounting officer)	December 21, 2011
* Kevin Charlton	Director	December 21, 2011
* Kui Leong Ng	Director	December 21, 2011

*By: /s/ THOMAS H. NOLAN, JR.
Thomas H. Nolan, Jr.

Attorney-in-fact

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EXHIBIT INDEX

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