

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-07-08** | Period of Report: **1994-05-28**  
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### FILER

#### PIER 1 IMPORTS INC/DE

CIK: **278130** | IRS No.: **751729843** | State of Incorpor.: **DE** | Fiscal Year End: **0227**  
Type: **10-Q** | Act: **34** | File No.: **001-07832** | Film No.: **94538338**  
SIC: **5700** Home furniture, furnishings & equipment stores

Mailing Address  
301 COMMERCE STREET  
SUITE 600  
FORT WORTH TX 76102

Business Address  
301 COMMERCE ST STE 600  
FORT WORTH TX 76102  
8178788000

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 28, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ] to [ ]

Commission File Number 1-7832

PIER 1 IMPORTS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-1729843  
(I.R.S. Employer  
Identification Number)

301 Commerce Street, Suite 600, Fort Worth, Texas 76102  
(Address of principal executive offices including zip code)

(817) 878-8000  
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding as of June 10, 1994
Common Stock, \$1.00 par value	37,653,580

PART I

Item 1. Financial Statements.

PIER 1 IMPORTS, INC.  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Dollars in thousands except share amounts)  
(Unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended	
	May 28, 1994	May 29, 1993
	-----	-----
<S>	<C>	<C>
Net sales	\$161,486	\$158,593
Operating costs and expenses:		
Cost of sales (including buying and store occupancy)	96,135	96,903
Selling, general and administrative expenses	50,188	47,098
Depreciation and amortization	3,853	3,694
	-----	-----
	150,176	147,695
	-----	-----
Operating income	11,310	10,898
Interest expense, net	3,299	4,276
	-----	-----
Income before income taxes	8,011	6,622

Provision for income taxes	2,476	1,920
	-----	-----
Net income	\$ 5,535	\$ 4,702
	=====	=====
Earnings per share	\$ .15	\$ .12
	=====	=====
Average shares outstanding during period, including common stock equivalents	37,710,000	37,669,000
	=====	=====

<FN>  
The accompanying notes are an integral part of these financial statements.  
</TABLE>

PIER 1 IMPORTS, INC.  
CONSOLIDATED BALANCE SHEET  
(Dollars in thousands except share data)  
(Unaudited)

<TABLE>  
<CAPTION>

	May 28, 1994	Feb. 26, 1994
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash, including temporary investments of \$9,014 and \$7,466, respectively	\$ 20,968	\$ 17,123
Accounts receivable, net	56,403	51,722
Inventories	217,482	219,646
Other current assets	47,146	32,901
	-----	-----
Total current assets	341,999	321,392
Properties, net	110,715	111,510
Other assets	30,636	30,400
	-----	-----
	\$483,350	\$463,302
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 24,639	\$ 2,639
Accounts payable and accrued liabilities	80,361	89,772
	-----	-----
Total current liabilities	105,000	92,411
Long-term debt	145,308	145,231
Deferred income taxes	3,029	3,407
Other non-current liabilities	24,731	21,160
Stockholders' equity:		
Common stock, \$1.00 par, 100,000,000 shares authorized, 37,617,000 outstanding	37,617	37,617
Paid-in capital	92,657	92,670
Retained earnings	81,193	76,597
Cumulative translation adjustments	(1,152)	(964)
Less - 30,200 and 98,000 common shares in treasury, at cost, respectively	(308)	(884)
Less - subscriptions receivable and unearned compensation	(1,307)	(1,369)
Less - unrealized loss on marketable equity securities	(3,418)	(2,574)
	-----	-----
	205,282	201,093
	-----	-----
	\$483,350	\$463,302
	=====	=====

<FN>  
The accompanying notes are an integral part of these financial statements.  
</TABLE>

PIER 1 IMPORTS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(In thousands)  
(Unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended	
	May 28, 1994	May 29, 1993
<S>	<C>	<C>
Cash flow from operating activities:		
Net income	\$ 5,535	\$ 4,702
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	3,853	3,694
Deferred taxes and other	3,307	1,765
Changes in cash from:		
Inventories	2,164	(14,930)
Accounts receivable and other current assets	(7,829)	(6,705)
Accounts payable and accrued expenses	(9,411)	(3,863)
Other assets, liabilities and other, net	(542)	(1,246)
Net cash used in operating activities	(2,923)	(16,583)
Cash flow from investing activities:		
Capital expenditures	(3,971)	(2,634)
Proceeds from the disposition of properties	3	720
Purchase of Sunbelt Nursery Group, Inc. bank debt	(9,600)	--
Other investing activities	(1,193)	(3,000)
Net cash used in investing activities	(14,761)	(4,914)
Cash flow from financing activities:		
Cash dividends	(939)	(749)
Net borrowings under line of credit agreements	22,000	14,000
Proceeds from sales of capital stock, treasury stock, and other	468	731
Net cash provided by financing activities	21,529	13,982
Change in cash	3,845	(7,515)
Cash at beginning of year	17,123	73,585
Cash at end of period	\$20,968	\$66,070

<FN>

The accompanying notes are an integral part of these financial statements.

</TABLE>

PIER 1 IMPORTS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MAY 28, 1994  
(In thousands)  
(Unaudited)

<TABLE>

<CAPTION>

	Common Stock	Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock	Subscriptions Receivable and Unearned Compensation	Unrealized Loss on Marketable Equity Securities	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, February 26, 1994	\$37,617	\$92,670	\$76,597	(\$ 964)	(\$884)	(\$1,369)	(\$2,574)	\$201,093
Restricted stock grant and amortization						62		62
Stock purchase plan, exercise of stock options and other		(13)			576			563
Currency transla- tion adjustments				(188)				(188)
Unrealized loss on marketable equity securities							(844)	(844)
Cash dividends			(939)					(939)

Net income			5,535					5,535
Balance, May 28, 1994	\$37,617	\$92,657	\$81,193	(\$1,152)	(\$308)	(\$1,307)	(\$3,418)	\$205,282

<FN>  
The accompanying notes are an integral part of these financial statements.  
</TABLE>

PIER 1 IMPORTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MAY 28, 1994 AND MAY 29, 1993  
(Unaudited)

The accompanying unaudited financial statements should be read in conjunction with the Form 10-K for the year ended February 26, 1994. All adjustments that are, in the opinion of management, necessary for a fair statement of the financial position as of May 28, 1994, and the results of operations and cash flows for the three months ended May 28, 1994 and May 29, 1993 have been made and consist only of normal recurring adjustments. The results of operations for the three months ended May 28, 1994 and May 29, 1993 are not indicative of results to be expected for the fiscal year because of, among other things, seasonality factors in the retail business.

PART I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Pier 1 Imports, Inc. ("the Company") had a net sales increase of \$2.9 million to \$161.5 million, or 1.8% for the three-month period ended May 28, 1994 over the same period of the prior year. Current year results of the Company exclude the operations of approximately 50 Pier 1 Imports stores scheduled for closing during fiscal 1995, as the operating results of these stores were included in the store closing provision recorded in fiscal 1994. Nine stores were closed through the store-closing program during the first quarter of fiscal 1995. Same-store sales during the quarter increased approximately 4% over the first quarter of fiscal 1994. This resulted from an increase in hard goods' sales such as furniture and decorative accessories of approximately 7% offset partially by a decline of 19% in soft goods' sales including clothing, jewelry and accessories. Four new stores were opened during the fiscal 1995 first quarter bringing the total number of stores to 590 compared to 605 at the end of the first quarter of fiscal 1994.

Gross profit, after related buying and store occupancy costs, expressed as percentage of net sales, improved 160 basis points to 40.5% for the first quarter of fiscal 1995 from 38.9% for the comparable period in fiscal 1994. As a percent of sales, occupancy costs improved 100 basis points and merchandise margins improved 60 basis points. Product categories with margin improvements over the first quarter of fiscal 1994 included furniture and decorative accessories.

Selling, general and administrative expenses, expressed as a percentage of net sales, increased 1.4% from 29.7% for the first quarter of fiscal 1994 to 31.1% for the comparable period in fiscal 1995. In total dollars, expenses during the first quarter of fiscal 1995 increased \$3.1 million compared to the same period of the prior year, primarily due to an increase in management bonus accruals, last year's recognition of favorable medical and general liability insurance trends and slightly higher general and administrative expenses.

Net interest expense during the first quarter of fiscal 1995 declined \$1.0 million over the same period the prior year due to lower short-term debt,

offset slightly by lower interest income on lower cash balances.

The Company's effective tax rate for the first quarter of fiscal 1995 increased to 31% compared to 29% for the last fiscal year.

Operating income increased \$0.4 million to \$11.3 million during the first quarter of fiscal 1995 compared to \$10.9 million in the first quarter of fiscal 1994. Net income for the fiscal 1995 first quarter aggregated \$5.5 million with earnings per share of \$.15 compared to fiscal 1994 first quarter net income of \$4.7 million and earnings per share of \$.12.

#### Liquidity and Capital Resources

Cash increased \$3.8 million during the first quarter of fiscal 1995 compared to a \$7.5 million cash decline during the first quarter of fiscal 1994. Cash provided by operations improved \$13.7 million compared to the first quarter of fiscal 1994 due to planned inventory growth during the first quarter of fiscal 1994 which was not repeated during the first quarter of fiscal 1995. Additionally, the improvement in cash provided by operations resulted from higher earnings partially offset by an increase in accounts receivable related to the Pier 1 preferred card. Cash used in investing activities includes the purchase from banks of \$9.6 million of Sunbelt Nursery Group, Inc. ("Sunbelt") debt that had been previously guaranteed by the Company. A total of \$11.6 million in working capital loans due from Sunbelt is included in the balance sheet caption "Other current assets."

During fiscal 1995, the Company paid a quarterly cash dividend of \$.025 per share and declared a dividend of \$.025 per share payable on August 16, 1994. The Company currently expects to continue paying modest cash dividends in fiscal 1995 and intends to retain most of its future earnings for growth of the Company's business.

Cash requirements to close the 50 stores in fiscal 1995 in the store-closing program are estimated to aggregate \$16 million and will be funded through working capital and operations. A total of 50 new stores are planned for the 1995 fiscal year. Financing for new store land and building costs will be provided by operating leases and inventory and fixtures are estimated to cost approximately \$14 million, which will be funded by operations, working capital and bank lines of credit.

The minimum future operating lease commitments for fiscal 1995 are \$65 million and the present value of all existing operating lease commitments is \$357 million.

Working capital requirements will continue to be provided by cash and \$165 million in available short-term revolving lines of credit. Under these lines of credit, \$22 million is outstanding in the form of short-term borrowings and an additional \$60 million is committed under letters of credit at May 28, 1994. The Company's current ratio at the end of the first quarter of fiscal 1995 was 3.3 to 1 compared to 3.5 to 1 at 1994 fiscal year end, and 3.3 to 1 at the first quarter of fiscal 1994.

In connection with the Company's sale of its investment in Sunbelt to General Host Corporation, the Company is currently providing Sunbelt a line of credit aggregating \$11.6 million, all of which was outstanding at May 28, 1994. To enable Sunbelt to raise funds to refinance the \$11.6 million debt, the Company has granted Sunbelt an extension of the credit facility until September 21, 1994. The Company is also committed to provide Sunbelt \$22.8 million of non-revolving store development financing which expires in stages from September 1994 to October 1995 and the Company guarantees approximately \$4.5 million of Sunbelt store lease obligations.

#### PART II

#### Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Shareholders of the Company was held June 23, 1994 for the purposes of electing seven (7) Directors to hold office until the next Annual Meeting of Shareholders and to vote upon the adoption of the Senior Management Annual Bonus Plan.

#### Director Election

Director	FOR	WITHHELD
-----	---	-----
Clark A. Johnson	29,258,725	338,044
Marvin J. Girouard	29,266,128	330,641

Charles R. Scott	29,209,036	387,733
Sally F. McKenzie	29,266,204	330,565
James M. Hoak, Jr.	29,268,353	328,416
Kenneth N. Pontikes	29,267,697	329,072
Martin L. Berman	29,257,771	338,998

Senior Management Annual Bonus Plan

FOR	AGAINST	ABSTAINED
---	-----	-----
26,805,414	2,529,594	261,761

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits See exhibit index.
- (b) Reports on Form 8-K None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIER 1 IMPORTS, INC. (Registrant)

Date: July 8, 1994 By: /s/ Robert G. Herndon  
-----  
Robert G. Herndon, Executive Vice President  
and Chief Financial Officer

Date: July 8, 1994 /s/ Charles H. Turner  
-----  
Charles H. Turner, Controller and Principal  
Accounting Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
---	-----	-----
10.15.3	Second Extension Agreement dated as of June 29, 1994 between Registrant, Pier-SNG, Inc. and Sunbelt	

SECOND EXTENSION AGREEMENT

This Second Extension Agreement (this "Agreement"), entered into on June 29, 1994, by and between Sunbelt Nursery Group, Inc., a Delaware corporation ("Borrower"), and Pier 1 Imports, Inc., a Delaware corporation ("Pier 1"), and Pier-SNG, Inc., a Delaware corporation ("Pier-SNG" and, collectively with Pier 1, sometimes referred to as "Lender").

RECITALS

A. The parties hereto have previously entered into that certain Extension Agreement, dated April 25, 1994 (the "First Extension"), providing for the extension of the date of the maturity (the "Maturity Date") of the Credit Agreement and of the Notes (as such terms are defined in the First Extension).

B. The Maturity Date of the Credit Agreement and of the Notes, as so extended, is June 30, 1994.

C. Borrower is attempting to refinance (the "New Financing") its obligations under the Credit Agreement and the Notes, and to facilitate the New Financing, Borrower has requested that Lender amend the Credit Agreement and the Notes to further extend the maturities thereof as herein provided.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms not otherwise defined herein shall have the meanings defined for such terms in the First Extension.
2. Extension Consideration. In consideration of Lender's agreement to extend the Maturity Date to September 21, 1994, Borrower shall, contemporaneously with the execution of this Agreement, deliver to Lender the Borrower's 8% promissory note due September 21, 1994, in the principal amount of \$100,000 (the "Consideration").
3. Amendments of the Credit Agreement and the Notes.
  - (a) Amendment of the Credit Agreement. The definition "Termination Date" in Section 1.1 of the Credit Agreement is, effective as of the date of this Agreement and Lender's receipt of the Consideration (the "Effective Date"), hereby replaced in its entirety as follows:

"Termination Date" shall mean September 21, 1994, or the earlier date of termination in whole of the Commitment pursuant to Sections



(b) Amendment of the TCB Note. The definition "Original Termination Date" in Section 1.1 of the TCB Facility is, effective as of the Effective Date, hereby replaced in its entirety as follows:

"Original Termination Date" shall mean September 21, 1994.

(c) Amendment to the Standard Chartered Note. The definition "Termination Date" in Section 1.1 of the SCB Facility is, effective as of the Effective Date, hereby replaced in its entirety as follows:

"Termination Date" shall mean September 21, 1994, or the earlier date of termination in whole of the Commitment pursuant to Sections 2.7 or 6.2.

(d) Payment of Accrued Interest. The Notes and Credit Agreement are hereby amended so as to provide for Borrower's delivery to Lender of the following interest payments thereunder:

- (i) Accrued interest on the Revolving Credit Balance as provided for under the Notes and Credit Agreement ("Accrued Interest") for the month of June 1994 shall be payable to Lender on or before June 30, 1994;
- (ii) Accrued Interest for the month of July 1994 shall be payable to Lender on or before July 31, 1994;
- (iii) Accrued Interest for the month of August 1994 shall be payable to Lender on or before August 31, 1994; and
- (iv) Accrued Interest from September 1, 1994, to September 21, 1994, shall be payable to Lender on or before September 21, 1994.

(e) Forgiveness of Certain Indebtedness. In the event Borrower repays to Lender on or before the Maturity Date an amount equal to the Revolving Credit Balance less the sum of \$220,000 (being the amount of consideration paid by Borrower under the First Extension and under this Agreement), Lender shall forgive the amount payable under Borrower's promissory note constituting the Consideration herein.

(f) Amendment of the Notes and Credit Agreement. Notwithstanding any provision in the Notes or the Credit Agreement to the contrary, Borrower shall not have the right to obtain any additional extensions of credit under the Notes or the Credit Agreement.

4. Waiver. Lender hereby waives until the Maturity Date any default, breach, violation or event of default under the Credit Agreement, the TCB Facility or the SCB Facility, and the Notes issued thereunder, including any cross default(s) arising under (A) Section 6.1(c) of the Credit Agreement and

(B) Section 6.1(d) of each of the TCB Facility and the SCB Facility, and the Notes issued thereunder, resulting from the failure of Borrower to satisfy the current ratio requirement set forth in Section 4.1(k)(iv) of each of the TCB Facility and the SCB Facility, and the failure to timely deliver notice of such defaults required by Section 4.1(k)(iv) of each of the Credit Agreement, the TCB Facility and the SCB Facility.

5. Representations and Warranties. (a) To induce Lender to enter into this Agreement, Borrower hereby represents and warrants to Lender that (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority to perform its obligations under this Agreement, (ii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite action on the part of Borrower and do not and will not violate the certificate of incorporation or bylaws of Borrower or any other agreement to which Borrower is a party, or any law, rule or regulation, or any order of any court, governmental authority or arbitrator by which it or any of its properties is bound and (iii) Borrower will apply the net proceeds of the New Financing to repay the Revolving Credit Balance.

(b) Lender hereby represents and warrants to Borrower that (i) Pier-SNG is the sole owner of the notes and is successor in interest to the respective banks under the SCB Facility and the TCB Facility with full power and authorization to amend such facilities, (ii) each of Pier 1 and Pier-SNG is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority to perform its obligations under this Agreement and (iii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite action on the part of Pier 1 or Pier-SNG and do not and will not violate the certificate of incorporation or bylaws of Pier 1 or Pier-SNG or any other agreement to which either Pier 1 or Pier-SNG is a party, or any law, rule or regulation, or any order of any court governmental authority or arbitrator by which they or any of their properties is bound.

6. Covenants. Notwithstanding any provisions to the contrary contained in the Credit Agreement, Borrower hereby covenants and agrees that it will perform, observe and comply with each of the following covenants:

(a) Weekly Financial Report. Borrower shall provide to Lender by 2:00 p.m., Fort Worth, Texas time, on the second business day of each week a financial report for Borrower for the previous week containing income, expense and cashflow information. All such reports shall be prepared in accordance with sound accounting principles consistently applied and shall be certified by the chief executive officer or the chief financial officer of Borrower to be true and correct to the best of such person's knowledge.

(b) Other Indebtedness. Borrower shall not, and shall not suffer its subsidiaries to, repay any indebtedness owing to any parent, affiliate or controlling person prior to repayment in full of the Revolving Credit Agreement.

7. Ratification of Loan Documents. Borrower hereby acknowledges and agrees that the Credit Agreement, the Notes, and all guarantees thereof and security interests granted in connection therewith in favor of Lender shall remain in full force and effect and binding on the respective parties thereto, enforceable in accordance with their respective terms. Except as provided herein, Borrower hereby ratifies and confirms the Notes and Credit Agreement and all of its obligations thereunder.

8. No Obligation of Lender. Except as provided herein, Lender shall have no further obligation whatsoever to extend the maturity of the Notes or Credit Agreement, waive any Event of Default or defer any payment. Borrower hereby acknowledges and understands that upon the maturity of the Notes or Credit Agreement, as extended hereby, Lender shall have the right to proceed to exercise any and all rights and remedies to which it is entitled, which may include foreclosure on any collateral securing the Notes and the Credit Agreement and the institution of legal proceedings.

9. No Implied Waivers. No failure or delay on the part of Lender in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement, the Credit Agreement, the Notes or any document related thereto shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement, the Notes or the Credit Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

10. Expenses of lender. Borrower agrees to pay on demand all reasonable costs and expenses incurred by Lender in connection with the preparation, negotiation, execution and administration of this Agreement, and all reasonable costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights or remedies under this Agreement, the Credit Agreement or the Notes, including without limitation the reasonable fees and expenses of Lender's legal counsel.

11. Indemnification. Section 2.16 of the Credit Agreement is applicable to this Agreement.

12. Survival of Representations and Warranties. All representations and warranties made in this Agreement shall survive the execution and delivery of this Agreement, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

13. Review and Construction of Documents. Borrower hereby acknowledges, and represents and warrants to Lender, that (i) Borrower has had the opportunity to consult with legal counsel of its own choice and has been afforded an opportunity to review this Agreement with its legal counsel, (ii) Borrower has reviewed this Agreement and fully understands the effects thereof and all terms and provisions contained therein, and (iii) Borrower has executed this Agreement of its own free will and volition.

14. Entire Agreement; Amendment. This agreement embodies the final,

entire agreement between the parties hereto regarding the maturity extensions granted herein and supersedes any and all prior commitments, representations and understandings, whether written or oral, relating to the subject matter hereof. The provisions of this Agreement may be amended or waived only by an instrument in writing signed by the partes hereto. The Notes, Credit Agreement and related documents, including but not limited to the Loan Papers (as defined in the Credit Agreement), continue to evidence the agreement of the parties with respect to the subject matter thereof

15. Notices. All notices, requests, demands and other communications under this Agreement shall be given in accordance with the provisions of the Loan Papers (as defined in the Credit Agreement).

16. Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and assigns, provided that Borrower may not assign any rights or obligations under this Agreement without the prior written consent of Lender.

17. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

18. Interpretation. Wherever the context hereof shall so require, the singular shall include the plural, the masculine gender shall include the feminine gender and the neuter and vice versa. The headings, captions and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

19. Severability. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

20. Counterparts. This Agreement may be executed and delivered in any number of counterparts, and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute one and the same instrument.

21. Further Assurances. Each party to this Agreement agrees to execute, acknowledge, deliver, file and record such further certificates, instruments and documents, and to do all other acts and things, as may be reasonably necessary or advisable to carry out the intents and purposes of this Agreement.

IN WITNESS WHEREOF, the parties hereby have executed this Agreement as of the day and year first above written.

SUNBELT NURSERY GROUP, INC.

By:  
Title:

PIER 1 IMPORTS, INC.

By:  
Title:

PIER-SNG, INC.

By:  
Title:

To induce Lender to enter into the foregoing Agreement, each of the undersigned consent and agree (a) to the execution and delivery of the foregoing Agreement, (b) that such Agreement shall in no way release, diminish, impair, reduce or otherwise adversely affect any obligations, guarantees or assurances heretofore granted by each of the undersigned to Pier 1 or Pier-SNG, which shall each continue to be in full force and effect. Each of the undersigned parties waive notice of acceptance of this Agreement by Lender, which Agreement shall be binding upon each of the undersigned and the successors and assigns of each of the undersigned and shall inure to the benefit of Lender and their successors and assigns. It is understood that SNG Acquisition, Inc. is not guaranteeing the performance of Borrower under Borrower's \$100,000 promissory note constituting the Consideration for the Second Extension.

SNG ACQUISITION COMPANY, INC.

By:  
Title:

WOLFE NURSERY GROUP, INC.

By:  
Title:

TIP TOP NURSERIES, INC.

By:  
Title:

HOUSTON PATIO & GARDEN CENTERS, INC.

By:  
Title:

GREEN BROS. NURSERY, INC.

By:  
Title:

SUNBELT MANAGEMENT SERVICES, INC.

By:  
Title:

NURSERYLAND GARDEN CENTERS, INC.

By:  
Title: