

# SECURITIES AND EXCHANGE COMMISSION

## FORM DEFR14A

Definitive revised proxy soliciting materials

Filing Date: **1994-03-18** | Period of Report: **1994-04-20**  
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### FILER

#### **SERVICE MERCHANDISE CO INC**

CIK: **89107** | IRS No.: **620816060** | State of Incorp.: **TN** | Fiscal Year End: **1231**  
Type: **DEFR14A** | Act: **34** | File No.: **001-09223** | Film No.: **94516661**  
SIC: **5399** Misc general merchandise stores

Mailing Address  
*PO BOX 24600  
NASHVILLE TN 37202*

Business Address  
*7100 SERVICE  
MERCHANDISE DR  
7100 SERVICE  
MERCHANDISE DR  
BRENTWOOD TN 37027  
6156606000*

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES

EXCHANGE ACT OF 1934 (AMENDMENT NO. 1)

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement

/X/ Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12

Service Merchandise Company, Inc.

(Name of Registrant as Specified in Charter)

Service Merchandise Company, Inc.

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

/X/ \$125 per Exchange Act Rules 0-11(c) (1) (ii), or 14a-6(i) (1), or 14a-6(j) (2).

/ / \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i) (3).

/ / Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

Set forth the amount on which the filing fee is calculated and state how it was determined.

/X/ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

\$125

(2) Form, Schedule or Registration Statement No.:

Schedule 14A

(3) Filing Party:

Service Merchandise Company, Inc.

(4) Date Filed:

February 11, 1994

[SERVICE MERCHANDISE LOGO]

7100 SERVICE MERCHANDISE DRIVE  
BRENTWOOD, TENNESSEE 37027

MAILING ADDRESS:

P. O. BOX 24600  
NASHVILLE, TENNESSEE 37202-4600

-----  
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON WEDNESDAY, APRIL 20, 1994  
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Notice is hereby given that the Annual Meeting of Shareholders of SERVICE MERCHANDISE COMPANY, INC. (hereinafter called the "Company"), will be held at the offices of the Company located at 7100 Service Merchandise Drive, Brentwood, Tennessee, on Wednesday, April 20, 1994 at 10:00 a.m., local time, for the following purposes:

(1) To elect two Class II directors to serve for a term of three years and until their successors are duly elected and qualified;

(2) To consider and act upon a proposal to approve the selection of Deloitte & Touche as the Company's independent public accountants for fiscal year 1994; and

(3) To transact such other business as may properly be brought before the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 1, 1994 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting.

Your attention is directed to the Proxy Statement accompanying this notice for a more complete statement regarding matters to be acted upon at the Annual Meeting.

By Order of the Board of Directors

GLEN A. BODZY,  
Secretary

Brentwood, Tennessee  
March 18, 1994

YOUR REPRESENTATION AT THE ANNUAL MEETING IS IMPORTANT. TO ENSURE YOUR REPRESENTATION, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY. SHOULD YOU DESIRE TO REVOKE YOUR PROXY, YOU MAY DO SO AS PROVIDED IN THE ACCOMPANYING PROXY STATEMENT AT ANY TIME BEFORE IT IS VOTED.

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SERVICE MERCHANDISE COMPANY, INC.  
7100 SERVICE MERCHANDISE DRIVE  
BRENTWOOD, TENNESSEE 37027

MAILING ADDRESS:

P. O. BOX 24600  
NASHVILLE, TENNESSEE 37202-4600

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PROXY STATEMENT  
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The accompanying proxy is solicited by the Board of Directors of Service Merchandise Company, Inc., for use at the Annual Meeting of Shareholders to be held on April 20, 1994, and any adjournments thereof, notice of which meeting is attached hereto.

This Proxy Statement and the Company's Annual Report to Shareholders have been mailed on or about March 18, 1994 to all shareholders of record on March 1, 1994.

The purposes of the Annual Meeting are: to elect two Class II directors; to

approve the selection of Deloitte & Touche as the Company's independent public accountants, and to transact such other business as may properly be brought before the Annual Meeting or any adjournment thereof.

A shareholder who signs and returns a proxy in the accompanying form may revoke the same at any time before the authority granted thereby is exercised by attending the Annual Meeting and electing to vote in person, by filing with the Secretary of the Company a written revocation or by duly executing a proxy bearing a later date. Unless so revoked, the shares of the Company's common stock (the "Common Stock") represented by the proxy will be voted at the Annual Meeting. Where a choice is specified on the Proxy, the shares represented thereby will be voted in accordance with such specifications. If no specification is made, such shares will be voted FOR the election of the two Class II director nominees and FOR the approval of the selection of Deloitte & Touche as the Company's independent public accountants.

The Board of Directors knows of no other matters which are to be brought to a vote at the Annual Meeting. However, if any other matter does come before the Annual Meeting, the persons appointed in the Proxy or their substitutes will vote in accordance with their best judgment on such matters.

The Board of Directors has fixed the close of business on March 1, 1994 as the record date for the Annual Meeting. On that date, the Company had outstanding 99,367,064 shares of Common Stock. Only record holders of the Common Stock at the close of business on that date will be entitled to vote at the Annual Meeting. Holders of the Common Stock will be entitled to one vote for each share of Common Stock so held, which may be given in person or by proxy duly authorized in writing.

The directors shall be elected by a plurality of the votes cast in the election by the holders of the Common Stock represented and entitled to vote at the Annual Meeting.

The selection of Deloitte & Touche as the Company's independent public accountants for fiscal year 1994 shall be approved by the plurality of the votes cast by the holders of the Common Stock represented and entitled to vote at the Annual Meeting.

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Pursuant to rules promulgated by the Securities and Exchange Commission (the "SEC"), boxes and a designated blank space are provided on the proxy card for shareholders to mark if they wish to vote "for," "against" or "withhold authority (abstain)" to vote for one or both director nominees, and to vote "for," "against" or "abstain" from voting on the proposal to approve the selection of Deloitte & Touche to serve as the Company's independent public accountants. Under Tennessee law and the Company's charter and bylaws, an abstention or withholding of authority to vote will have no effect on the outcome of the election of directors or the approval of the selection of the Company's independent public accountants, as both are determined by the number of votes cast. Shares represented at the meeting by proxies containing instructions to abstain, or withholding authority to vote, will nonetheless be counted as present for purposes of determining whether a quorum exists at the meeting.

A broker non-vote occurs when a broker holding shares registered in street name is permitted to vote, in the broker's discretion, on routine matters without receiving instructions from the client, but is not permitted to vote without instructions on non-routine matters, and the broker returns a proxy card with no vote (the "non-vote") on the non-routine matter. Under Tennessee law and the Company's charter and bylaws, broker non-votes will have no impact on the election of directors or the approval of the selection of independent public accountants, but shares represented by a proxy card marked with a non-vote would be counted as present for purposes of determining the existence of a quorum. Under New York Stock Exchange rules, both the election of directors and the selection of independent public accountants are routine matters on which a broker has the discretion to vote if instructions are not received from the client at least 10 days prior to the meeting.

The cost of solicitation of proxies will be borne by the Company, including expenses in connection with preparing, assembling and mailing this Proxy Statement. Such solicitation will be made by mail, and may also be made by the Company's officers, directors and regular employees personally or by telephone or telegram. No officers, directors or regular employees will receive additional compensation for soliciting proxies. The Company may reimburse brokers, custodians and nominees for their expenses in sending proxies and proxy material to beneficial owners. The Company has also retained D. F. King & Co., a firm of professional proxy solicitors, to aid in the solicitation at a fee of \$7,000 plus reimbursement of normal expenses.

The Company's charter provides for a classified Board of Directors. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The directors are classified with respect to the time for which they shall hold office by dividing them into three classes. At each annual meeting, directors of the class whose term of office expires in that year are elected for a three-year term. The terms of the two Class II directors, R. Maynard Holt and James E. Poole, expire upon the election and qualification of new directors at the Annual Meeting. The Board of Directors has designated R. Maynard Holt and James E. Poole as the two nominees for reelection as Class II directors for a term expiring at the annual meeting in 1997 and when their successors shall have been elected and qualified. Both of the nominees are currently Class II directors of the Company and were previously elected by the shareholders.

Unless contrary instructions are received, it is intended that the shares represented by proxies solicited by the Board of Directors will be voted in favor of the election as directors of both of the Class II nominees named herein. If for any reason either nominee is not available for election, the persons named in the form of proxy have advised the Company that they will vote for such substitute nominee or nominees as the Board of

Directors of the Company may propose. The Board of Directors has no reason to expect that either of these nominees will fail to be candidates at the Annual Meeting, and therefore does not at this time have any substitute nominee under consideration. The information relating to the two nominees and the four directors continuing in office set forth herein has been furnished to the Company by such nominees and directors.

<TABLE>  
<CAPTION>

NAME, AGE, POSITION(S) WITH THE COMPANY	YEAR FIRST BECAME A DIRECTOR	BUSINESS EXPERIENCE DURING PAST FIVE YEARS	YEAR TERM TO EXPIRE IN
<hr/>			
<S>	<C>	<C>	<C>
CLASS II NOMINEES STANDING FOR REELECTION:			
R. Maynard Holt, 54 Director	1971	President of R. Maynard Holt & Co., business consulting and stock market software firm located in Nashville, Tennessee; independent business consultant from June 1987 to February 1990.	1997
James E. Poole, 69 Director	1983	President of Poole Enterprises, Inc., Nashville, Tennessee from October 1985.	1997
CURRENT DIRECTORS WHOSE TERMS HAVE NOT EXPIRED AND WHO ARE THEREFORE NOT UP FOR REELECTION:			
Raymond Zimmerman, 61 Chairman of the Board, President and Chief Executive Officer	1960	Chairman of the Board, President and Chief Executive Officer of the Company; director of The Limited Stores, Columbus, Ohio.	1995
Harold Roitenberg, 67 Director	1990	President of Roitenberg Investments, Inc., Minneapolis, Minnesota; director of Syratech Corporation and Damark International, Inc.	1995
Richard P. Crane, Jr., 54 Director	1975	Practicing Attorney; Partner, Crane, Rayle & Lennemann, Santa Monica, California.	1996
Charles V. Moore, 54 Director	1972	President and Director of Trainer, Wortham & Company, Inc., Investment Counselors, New York, New York.	1996

</TABLE>

The Company has a Compensation Committee for the purpose of setting executive officers' salaries, formulating bonuses for the Company's management, reviewing and approving compensation policies, plans and programs for officers and other key employees, reviewing and approving salary and other compensation of the officers of the Company and other key employees, making recommendations to the Board with respect to the compensation of directors and administering the Company's stock-based incentive plans. The members of the Committee are Charles V. Moore, Chairman, James E. Poole and Harold Roitenberg. The Committee held four meetings during the fiscal year ended January 1, 1994.

The Company has an Audit Committee for the purposes of recommending the

Company's auditors, reviewing the scope of their engagement, consulting with such auditors, reviewing the results of the audit examination prior to finalization thereof, acting as a liaison between the Board and internal auditors and reviewing various Company policies, including those relating to accounting and internal control matters. The members of the Committee are R. Maynard Holt, Chairman, Richard P. Crane, Jr., Charles V. Moore, James E. Poole and Harold Roitenberg. During the fiscal year ended January 1, 1994, there were four meetings of the Audit Committee.

The Company has a Nominating Committee for the purpose of recommending nominees for election as directors to the Board of Directors. The Nominating Committee held two meetings during the fiscal year ended January 1, 1994. The members of the Nominating Committee are Raymond Zimmerman, Chairman, Harold Roitenberg and James E. Poole. The Nominating Committee makes recommendations to the Board with regard to qualified nominees for election as directors of the Company, considers other matters pertaining to the size and composition of the Board and designates members of the Board's committees. The Nominating Committee gives appropriate consideration to qualified persons recommended by shareholders for nomination as director, provided such recommendations are accompanied by sufficient information to permit the Committee to evaluate the qualifications and experience of the nominee.

During the fiscal year ended January 1, 1994, the Board of Directors held four regular meetings and two special meetings. All incumbent directors attended more than 75% of the aggregate number of meetings of the Board and Committees of the Board on which they serve.

SECURITY OWNERSHIP OF MANAGEMENT  
AND CERTAIN BENEFICIAL OWNERS

MANAGEMENT'S STOCK OWNERSHIP

The following table sets forth as of January 31, 1994 certain information regarding the beneficial ownership of Common Stock by all directors of the Company, the Company's Chief Executive Officer and the four most highly compensated officers of the Company other than the Chief Executive Officer, and by all such directors and officers as a group. Except as otherwise indicated, each director or officer has sole voting and investment power over the shares of Common Stock listed as beneficially owned by him.

<TABLE>  
<CAPTION>

NAME	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF CLASS (1)
<S> Raymond Zimmerman.....	<C> 5,652,414 (2) 1,892,654 (3) 566,280 (4)	<C>
Richard P. Crane, Jr.....	8,111,348 (5) 9,123 (6) (7)	8.2%
Charles V. Moore.....	94,908 (6) (7) (8)	

James E. Poole.....	10,389(6)(7)	
R. Maynard Holt.....	6,951(6)(7)(9)	
Harold Roitenberg.....	18,826(6)(10)	
S.P. Braud, III.....	251,419(11)	
Frank X. Bisceglia.....	73,336(12)	
Glen A. Bodzy.....	262,391(13)	
Charles Septer.....	109,715(14)(15)	
All directors and executive officers as a group (13 persons).....	9,004,086(16)	9.1%

</TABLE>

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- (1) Percentages representing less than 1% of the outstanding shares of Common Stock are not shown.
- (2) Includes currently exercisable options to acquire 601,875 shares, 504,176 shares owned of record by Mrs. Zimmerman, 400,312 shares owned of record by RAZ Investments Co., a general partnership with Mr. Zimmerman and Mrs. Zimmerman sharing voting power and investment power as the two general partners and 10,118 shares held by the trustee under the Service Merchandise Savings and Investment Plan.
- (3) Represents 1,380,910 shares owned of record by Mr. Zimmerman as trustee for five nieces, 456,967 shares as to which Mr. Zimmerman is trustee under the will of Mary K. Zimmerman and 54,777 shares owned of record by Mrs. Zimmerman as trustee or custodian for children or grandchildren and a grandniece.
- (4) Represents 405,000 shares owned of record by the Raymond Zimmerman Family Foundation and 161,280 shares owned of record by the Zimmerman Foundation.
- (5) The address for Mr. Zimmerman is 7100 Service Merchandise Drive, Brentwood, Tennessee 37027.
- (6) Includes 188 restricted shares of Common Stock granted under the Directors' Equity Plan, held by the Company until restrictions lapse on April 21, 1994.
- (7) Includes currently exercisable options to acquire 450 shares granted under the Directors' Equity Plan.
- (8) Includes 9,280 shares owned by Mr. Moore as custodian for two minor children.
- (9) Includes 937 shares owned of record by Mr. Holt as Trustee for the R. Maynard Holt Profit Sharing Plan, a qualified profit sharing plan under the Internal Revenue Code, 2,000 shares owned by Mr. Holt's wife and 2,000 shares owned by Mr. Holt's mother.
- (10) Includes 17,812 shares owned by Roitenberg Investments, Inc., which is 100% owned by Mr. Roitenberg.
- (11) Includes currently exercisable options to acquire 600 shares.
- (12) Includes currently exercisable options to acquire 9,570 shares.
- (13) Includes currently exercisable options to acquire 9,062 shares.
- (14) Includes currently exercisable options to acquire 8,462 shares.
- (15) Includes 3,877 shares held by Mr. Septer's wife and 2,262 shares under currently exercisable options held by Mr. Septer's wife.
- (16) Includes currently exercisable options to acquire 2,346 shares, not detailed above.

SECURITY OWNERSHIP OF CERTAIN PERSONS

To the best knowledge of the Company, as of December 31, 1993, other than Raymond Zimmerman, whose security ownership is listed in the preceding table, the only other beneficial owner of more than 5% of the outstanding shares of Common Stock is set forth in the following table.

<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF CLASS
----- <S> Forstmann-Leff Associates Inc.(1) 55 East 52nd Street New York, NY 10055	<C> 6,080,725	<C> 6.1%

- - - - -

- (1) According to its Schedule 13G, Forstmann-Leff Associates Inc., a New York corporation, is a registered investment adviser under Section 203 of the Investment Advisers Act of 1940 (the "Act"). Of the 6,080,725 shares of Common Stock beneficially owned by Forstmann-Leff Associates Inc., 1,177,613 are beneficially owned by FLA Asset Management, Inc., and 539,587 are beneficially owned by Stamford Advisers Corp. FLA Asset Management, Inc. is a registered investment adviser under the Act and a subsidiary of Forstmann-Leff Associates Inc. Stamford Advisers Corp. is a registered

investment adviser under the Act. Forstmann-Leff Associates Inc. shares investment and/or voting power with Stamford Advisers Corp. over Stamford Advisers Corp.'s accounts.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table provides information as to annual, long-term or other compensation during fiscal years 1993, 1992 and 1991 for the Company's Chief Executive Officer and the persons who, in fiscal 1993, were the other four most highly compensated executive officers of the Company (such five officers collectively, the "Named Officers").

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS		ALL OTHER COMPEN-
		SALARY (\$)	BONUS (\$)	RESTRICTED STOCK AWARDS (3) (\$)	OPTIONS/SARS (#)	SATION(1) (2)
						(\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Raymond Zimmerman.....	1993	\$750,000	--	--	--	\$ 29,590
Chairman, President	1992	750,000	--	--	150,000	21,642
and CEO	1991	750,000	--	\$ 66,253	37,500	n/a
S.P. Braud, III.....	1993	312,468	--	--	--	12,514
Vice President	1992	300,456	--	--	3,000	12,075
	1991	288,860	\$ 64,896	--	--	n/a
Frank X. Bisceglia.....	1993	295,256	--	--	20,000	6,367
Div. Sr. Vice President	1992	283,920	--	--	3,000	6,161
Hardlines Merchandising	1991	273,000	61,390	--	--	n/a
Glen A. Bodzy.....	1993	290,524	--	--	20,000	5,575
Vice President, General	1992	279,344	--	--	3,000	5,400
Counsel and Secretary	1991	268,580	59,268	--	--	n/a
Charles Septer.....	1993	285,804	--	--	20,000	4,238
Div. Sr. Vice President	1992	273,572	--	--	3,000	5,375
Jewelry Merchandising	1991	260,520	58,572	--	--	n/a

(1) Represents Company contributions to defined contribution plan in the amount of \$4,497 and \$4,364 for each Named Officer other than Mr. Septer in fiscal 1993 and 1992, respectively, Company contributions to defined contribution plan in the amount of \$3,185 and \$4,364 for Mr. Septer in fiscal 1993 and 1992, respectively, and payment of term life insurance premiums for each Named Officer in fiscal 1993 and 1992. With respect to Mr. Zimmerman, the Company paid \$20,428 and \$13,095 in premiums in fiscal 1993 and 1992, respectively, for term life insurance policies as to which the Company has no split dollar agreements and \$4,665 and \$4,183 in fiscal 1993 and 1992, respectively, in term life premiums with respect to \$12,041,040 in life insurance policies as to which the Company and Mr. Zimmerman are parties to split dollar agreements. Pursuant to these agreements, the Company is the owner of the policies, pays the premiums of approximately \$115,296 per year and, upon the payment of the policy proceeds, will receive, net of any tax liability, an amount equal to the aggregate premiums paid by the Company. The remaining policy proceeds will be paid to Mr. Zimmerman's designated beneficiaries. Mr. Zimmerman does not have any interest in the cash surrender value of the policies for which there are split dollar agreements. Either party may terminate the respective agreements at any time on thirty days' written notice. There are no split dollar life insurance agreements for the other Named Officers.

(2) Compensation that would otherwise be included in this column for fiscal 1991 has been omitted pursuant to the phase-in provisions of the new executive compensation rules promulgated by the SEC.

(3) Outstanding restricted stock awards at January 1, 1994 are as follows:

NAME	NUMBER OF SHARES	VALUE (AS OF 1/1/94)
------	------------------	----------------------



<S>	<C>	<C>
S.P. Braud, III.....	30,045	\$300,450
Frank X. Bisceglia.....	29,903	\$299,030
Glen A. Bodzy.....	28,209	\$282,090
Charles Septer.....	28,212	\$282,120

</TABLE>

Dividends are payable on restricted stock when and if paid on unrestricted stock. No dividends were paid in fiscal 1993. Mr. Zimmerman's restricted stock award in April 1991 vested in April 1992.

OPTION/SAR GRANTS TABLE

The following table provides information as to options granted to the five Named Officers during fiscal 1993. No separate stock appreciation rights ("SAR's") were granted during fiscal 1993.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

<TABLE>  
<CAPTION>

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZED VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#) (1)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE BASE PRICE (\$/SH)	EXPIRATION DATE	5% (\$)	10% (\$)
					<C>	<C>
Raymond Zimmerman.....	--	--	--	--	--	--
S.P. Braud, III.....	--	--	--	--	--	--
Frank X. Bisceglia.....	20,000	1.81%	\$ 10.125	4/21/03	\$127,300	\$322,700
Glen A. Bodzy.....	20,000	1.81%	10.125	4/21/03	127,300	322,700
Charles Septer.....	20,000	1.81%	10.125	4/21/03	127,300	322,700

</TABLE>

(1) Options were granted on April 21, 1993 and vest 20% annually over five years. There are no criteria for vesting other than continued employment through the vesting dates and no other material terms of the options except as disclosed under "Change in Control Provisions under the Company's 1989 Employee Stock Incentive Plan."

OPTION/SAR EXERCISES AND YEAR-END VALUE TABLE

The following table provides information as to options exercised or held by the five Named Officers during fiscal 1993. None of the Named Officers has been granted separate SAR's.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

<TABLE>  
<CAPTION>

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS AND/OR SARS AT FY-END (#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END (\$)
				EXERCISABLE/ UNEXERCISABLE
Raymond Zimmerman.....	--	--	601,875/120,000	\$ 3,823,406/\$0
S.P. Braud, III.....	126,799	\$ 938,561	600/14,419	0/66,527
Frank X. Bisceglia.....	8,969	55,201	9,570/34,364	42,872/66,225
Glen A. Bodzy.....	--	--	9,062/33,686	40,445/62,468
Charles Septer.....	11,881	63,875	8,462/33,691	40,445/62,493

</TABLE>

DIRECTORS COMPENSATION

In fiscal 1993, directors not otherwise employed as officers of the Company received fees of \$5,000 per quarter. Each such director received an additional fee of \$2,000 per meeting for attendance at certain special meetings. Mr. Holt, Chairman of the Audit Committee, received an additional \$1,000 for the year.

Under the Directors Deferred Compensation Plan, implemented in 1991,

directors have the option of deferring receipt of their fees until a period following their service as director or until retirement age.

Under the Company's 1991 Director's Equity Plan, each director who is not an employee of the Company is entitled to receive 188 restricted shares of the Company's Common Stock annually, on the date of the Annual Meeting of Shareholders. The initial grant was made on May 1, 1991. Each director is immediately

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entitled to vote the granted shares and receive any dividends or other distributions declared on the shares. Vesting of the shares occurs one year from the date of the grant. The restricted shares will vest immediately upon a director's death or disability or on the date a "change in control" is deemed to occur under the Company's 1989 Employee Stock Incentive Plan.

Each non-employee director also receives on the date of the Annual Meeting of Shareholders, options to purchase 750 shares of the Company's Common Stock. The options are exercisable in 20% installments beginning one year from the date of grant. The exercise price is the market value of the Company's Common Stock on the date of grant. The options expire 10 years from the date of grant. The options become immediately exercisable on a director's death or disability or on the date a "change in control" is deemed to occur under the Company's 1989 Employee Stock Incentive Plan.

#### EMPLOYMENT AGREEMENTS

The Company has Employment Agreements (the "Agreements") with the five Named Officers. The Agreements with the Named Officers were entered into in 1988 and provide for payment of their base salary at the time (\$550,004 for Raymond Zimmerman, \$241,280 for S.P. Braud, III, \$225,004 for Frank X. Bisceglia, \$225,004 for Glen A. Bodzy and \$200,044 for Charles Septer), subject to increase at the discretion of the Board of Directors. The base salary in effect at any time may only be decreased if the base salary of other officers in comparable positions is also being reduced as a general matter. The Agreements also provide that the Named Officers will be entitled to annual incentive compensation at the discretion of the Board of Directors and will be eligible to participate in benefit plans, including stock option plans, generally available to officers and key employees. Mr. Zimmerman agreed in 1992 that, for a period of five years, (a) his annual base salary would be frozen at its then current level of \$750,000, (b) he would receive no annual incentive compensation and (c) he would be eligible to receive long-term incentive compensation in the form of stock options, restricted stock awards and other equity-based rights to provide value that is largely contingent upon increases in the value of the Company's stock. The Agreements provide that upon termination of employment for any reason other than "cause," the individual will receive his base salary for the balance of the term of the Agreement, which will generally be for a period of not less than one nor more than two years because of automatic renewal provisions in the Agreements.

The Agreements extend for a rolling three year period (on each anniversary of the date of the Agreements, the expiration date is automatically extended for an additional year unless the Company acts to terminate this automatic renewal position). The Agreements provide that Named Officers will not engage in various activities competitive with the business of the Company for a period of one year after termination of employment.

In 1993, Mr. Braud elected to take early retirement effective in April 1994 and the term of employment under his Agreement will end at that time. In connection with his early retirement, the Company has agreed to accelerate the vesting of 30,045 shares of restricted stock granted to him in August 1989 from February 1995 to April 1994.

The Company also has indemnification agreements with each of its directors and executive officers providing for contractual rights of indemnification to the fullest extent permitted by Tennessee law.

#### CHANGE IN CONTROL PROVISIONS UNDER THE COMPANY'S 1989 EMPLOYEE STOCK INCENTIVE PLAN

Under the Company's 1989 Employee Stock Incentive Plan, SAR's and limited SAR's outstanding for at least six months, and any stock options which are not then exercisable, will become fully exercisable and

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vested. Likewise, the restrictions and deferral limitations applicable to restricted stock, deferred stock, stock purchase rights and other stock-based awards will lapse and such shares and awards will be deemed fully vested. Stock

options, SAR's, limited SAR's, restricted stock, deferred stock, stock purchase rights and other stock-based awards will, unless otherwise determined by the Compensation Committee in its sole discretion, be cashed out on the basis of the change in control price as defined in the plan.

#### PENSION PLAN

The Company's pension plan (the "Pension Plan"), which is qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, includes all full-time employees who are at least age twenty-one with one year of qualified service as defined by the Pension Plan. Directors who are not officers or employees of the Company do not participate in the Pension Plan. In 1989, the Pension Plan was changed to an account balance plan which bases benefits on annual service credits and annual interest credits for each participant. At retirement, the account balance may, at the participant's election, be actuarially converted into a monthly pension. Participants in the Pension Plan as of January 1, 1989, are provided certain minimum benefits reflecting the provisions of the prior Pension Plan based on compensation received during 1988.

Annual service credits ranging from 3% to 5% are based on each participant's years of service at the beginning of the current year and applied to total compensation, which includes base wages, salaries, and bonuses before deferrals pursuant to the Company's savings plan. Annual interest credits will be based on interest rate indices prescribed in the Pension Plan. The account balances of participants were credited with interest at the annual rate of 6% during 1993.

The estimated annual benefits payable to Raymond Zimmerman, Frank X. Biscaglia, Glen A. Bodzy and Charles Septer under the Pension Plan upon retirement at normal retirement age are approximately \$115,641, \$82,298, \$80,899 and \$56,513, respectively. The estimated annual benefit payable to S.P. Braud, III at his anticipated early retirement date of April 30, 1994 is \$45,784. These estimates assume continued compensation at the present amounts (subject to the \$150,000 limit as discussed below) until normal or anticipated retirement age and continued crediting of interest at the current rate, and disregarding probable future cost-of-living increases to the limit on the amount of compensation that may be taken into account.

All benefits provided under the Pension Plan are subject to annual limitations as specified under Section 415 of the Internal Revenue Code of 1986, as amended. Benefits were limited to \$115,641 during 1993. In addition, compensation considered under the Pension Plan during 1994 and all future years is limited to \$150,000.

#### EXECUTIVE SECURITY PROGRAM (ESP)

The Company maintains a non-qualified supplemental retirement plan which covers certain management employees hired or promoted to their job level prior to February 28, 1989. The plan provides salary continuation and/or death benefits equal to two times the participant's annual salary at retirement or at age 65 if the former employee participating in the ESP completed 20 years of vesting service prior to termination. Salary continuation benefits are paid from the general assets of the Company. There are approximately 332 active employees covered. Seventeen retirees currently receive benefits and four terminated vested participants are entitled to a future benefit. The Company maintains Corporate Owned Life Insurance (COLI) policies purchased on participants covered by the plan prior to the Tax Reform Act of 1986. The Company continues to maintain COLI policies following termination or retirement of covered employees.

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#### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee (the "Committee") sets executive officers' salaries, formulates bonuses for the Company's management and administers the Company's stock-based incentive plans. The members of the Committee are all non-employees of the Company, although Mr. Poole served as President and Chief Operating Officer of the Company from October 1983 to May 1984. The Committee reviews the Company's executive compensation policies when the financial results of the prior fiscal year become available. The policies are reviewed in light of their overall consistency, in the subjective view of the Committee, with the Company's financial performance, its business plan and its position within the retail industry, as well as the compensation policies of similar companies in the retail business as discussed further below. The compensation of individual executives is then evaluated by the Committee in accordance with its established executive compensation policies. At its meeting on February 24, 1993, the Committee adopted a statement of policy concerning compensation of the Company's executive officers. This statement of policy set forth the following primary objectives:

- to attract and retain talented executives by providing a compensation program that is competitive with the compensation provided to executives at companies of comparable size and position in the retail business, while maintaining compensation within levels consistent with the Company's business plan, financial objectives and operating performance;
- to provide appropriate incentives for executives to work towards the achievement of the Company's annual performance targets established in the Company's business plan; and
- to more closely align the interests of executives with those of shareholders and the long-term interests of the Company by providing long-term incentive compensation in the form of stock options, restricted stock or other equity-based long-term incentive compensation.

In reviewing the comparability of the Company's overall levels of base executive compensation, the Committee looks to a variety of sources. The Company participates in externally prepared compensation surveys, the most comprehensive of which is the Retail Management Compensation Study prepared by Management Compensation Services ("MCS"), a subsidiary of Hewitt Associates, a nationally recognized management consulting firm. The Retail Management Compensation Study provides data on compensation practices of other retailers with annual revenues of at least \$3 billion, by job classification category. Secondly, the Company requested MCS to prepare a specific analysis of participating retail companies which are included in the Composite Index Average shown in the performance graph on page 14. The Company also reviews compensation information disclosed in current proxy statements for all companies included in the Composite Index Average.

The survey and proxy data is used to obtain an overall perspective on base retail executive compensation. However, the Committee also takes into account other factors, which in its subjective judgment, affect the comparability of this data to the Company. These factors include differences in: the Company's mix of product offerings, the Company's catalog store format versus other selling concepts, the number of stores and employees, organizational structure levels of executive responsibility and corporate cultures. Analysis of the MCS survey data and the current proxy statements of the companies included in the Composite Index Average revealed that the Company's levels of executive base compensation fell within the mid-range of companies included in the survey data or in the Composite Index Average.

COMPENSATION OF EXECUTIVES OTHER THAN THE CHIEF EXECUTIVE OFFICER. The Company offers its executive officers base salary, annual incentive compensation and long-term compensation, determined in accordance with the general principles set forth below.

BASE COMPENSATION. In determining annual base compensation adjustments for each executive, the Committee predicates its decision on a subjective assessment of the individual executive's performance in light of that executive's job responsibilities. During fiscal 1993, executive officers, other than the Chief Executive Officer ("CEO"), received base compensation increases in recognition of individual performance ranging from 4% to 6%, excluding increases related to changes in job responsibilities such as promotions.

ANNUAL INCENTIVE COMPENSATION. The Company's annual incentive (bonus) compensation for executive officers is determined by achievement of a pre-determined, Company-wide financial target for net income (exclusive of extraordinary items, cumulative effect of changes in accounting principle and other like items), established at the beginning of each fiscal year in conjunction with the Company's annual business plan. Executives receive a bonus based on whether, and to what extent, the Company, as a whole, achieves the target. Bonuses are paid to executive officers based on the following percentages of their base salary, which percentages were determined based upon the subjective judgment of the Committee:

<TABLE>  
<CAPTION>

ACHIEVEMENT OF TARGET	PERCENTAGE BONUS
less than 100%	none
100%	6.7-10%
110%	10-15%
125%	15-22.5%
150%	20-30%

</TABLE>

For fiscal 1993, the established targeted net income, before extraordinary items and cumulative effect of change in accounting



James E. Poole, who currently serves on the Compensation Committee of the Board of Directors, served as President of the Company from October 1983 until May 1984.

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#### PERFORMANCE GRAPH

##### COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN SERVICE MERCHANDISE COMPANY, INC. S & P MIDCAP 400 AND COMPOSITE INDEX AVERAGE

<TABLE>

<CAPTION>

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	SERVICE MER- CHANDISE COMPANY, INC.	S&P MIDCAP 400 INDEX	COMPOSITE INDEX AVERAGE
<S>	<C>	<C>	<C>
1988	\$100.00	\$100.00	\$100.00
1989	140.62	135.54	127.70
1990	91.88	128.61	127.25
1991	201.57	193.03	207.44
1992	407.80	216.03	250.72
1993	281.24	246.17	243.22

</TABLE>

The above graph compares the performance of the Common Stock of Service Merchandise Company, Inc. with that of the S & P MidCap 400 and a composite index comprised of three published S & P retail group indices: Department Stores, General Merchandise Chains and Specialty (the "Composite Index Average"). The three groups include Dayton Hudson Corp., Dillard Department Stores, May Department Stores, Mercantile Stores, Nordstrom, K Mart, J.C. Penney, Sears, Roebuck & Company, Wal-Mart Stores, Woolworth Company, Circuit City Stores, Home Depot, Lowe's, Melville Corp., Pep Boys -- Manny, Moe and Jack, Blockbuster, Price/Costco Inc., Tandy Corp. and Toys R Us.

The comparison of total return on investment (change in year-end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on January 3, 1988 in each of Service Merchandise Company, Inc. Common Stock, the S & P MidCap 400 and the Composite Index Average with investment weighted on the basis of market capitalization.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In 1990, The Service Merchandise Foundation, a private charitable foundation (the "Foundation"), was formed, and thereafter, the Internal Revenue Service approved the Foundation's application for tax-exempt status. As a charitable contribution in 1990, the Company granted the Foundation an option to purchase 1,875,000 shares of Common Stock at \$2.20 per share, the market price at that time. The option is exercisable in whole or in part from the date of grant until October 15, 2000. Under applicable Internal Revenue Service

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rulings, the stock option may not be exercised directly by the Foundation. The Foundation may sell all or a part of the option to other not-for-profit third parties which may then exercise the option directly. The Trustee of the Foundation is Raymond Zimmerman, and the members of the Trust Committee administering the Foundation (the "Committee") are Raymond Zimmerman, Arlene Zimmerman, S.P. Braud, III, Joel Gordon and Harold Roitenberg, who may be deemed to control the disposition of the option by virtue of their power to decide to whom to sell such option. Each of the members of the Committee disclaims beneficial ownership of the shares of Common Stock issuable upon exercise of the option.

The Company leases two store properties from Raymond Zimmerman and Service Realty Company, Inc., a corporation whose sole shareholder is Raymond Zimmerman. For the fiscal year ended January 1, 1994, Raymond Zimmerman and Service Realty Company, Inc. received an aggregate of \$111,000 on account of properties leased to the Company. The Company believes the rentals paid and which may be paid under these leases are and will be comparable to rentals paid by lessees of similar properties in the same general locations, and the terms of such leases are at least as favorable to the Company as could be obtained from unaffiliated persons.

The Company is a party to split-dollar agreements covering \$12,041,040 in life insurance policies on the life of Raymond Zimmerman. Pursuant to these agreements, the Company is the owner of the policies, pays the premiums of

approximately \$115,296 per year and, upon the payment of the policy proceeds, will receive, net of any tax liability, an amount equal to the aggregate premiums paid by the Company. The remaining policy proceeds will be paid to Mr. Zimmerman's designated beneficiaries. Mr. Zimmerman has no interest in the cash surrender value of the policies. Either party may terminate the respective agreements at any time on thirty days' written notice. See note (1) to the Summary Compensation Table on page 7.

PROPOSAL NO. 2: APPROVAL OF DELOITTE & TOUCHE  
AS INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has appointed Deloitte & Touche as independent public accountants of the Company for the 1994 fiscal year, subject to approval by the shareholders. Deloitte & Touche served as the Company's independent public accountants for the fiscal year ended January 1, 1994. A representative of Deloitte & Touche is expected to be present at the Annual Meeting with the opportunity to make a statement if such representative so desires and will be available to respond to appropriate questions.

PROPOSALS OF SHAREHOLDERS

Shareholders intending to submit proposals for presentation at the next Annual Meeting of Shareholders of the Company and inclusion in the proxy statement and form of proxy for such Meeting should forward such proposals to Glen A. Bodzy, Vice President, General Counsel and Secretary, Service Merchandise Company, Inc., P. O. Box 24600, Nashville, Tennessee 37202-4600. Proposals must be in writing and must be received by the Company prior to November 18, 1994. Proposals should be sent to the Company by certified mail, return receipt requested.

By Order of the Board of Directors  
GLEN A. BODZY,  
Secretary

March 18, 1994

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PROXY SERVICE MERCHANDISE COMPANY, INC. PROXY

PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON WEDNESDAY, APRIL 20, 1994.

The undersigned hereby appoints Raymond Zimmerman and Glen A. Bodzy, and each of them, as proxies, with full power of substitution, to vote all shares of the undersigned as shown below on this proxy at the Annual Meeting of Shareholders of Service Merchandise Company, Inc. to be held at the Company's offices located at 7100 Service Merchandise Drive, Brentwood, Tennessee, on Wednesday, April 20, 1994, at 10:00 a.m., local time, and any adjournments thereof.

YOUR SHARES WILL BE VOTED IN ACCORDANCE WITH YOUR INSTRUCTIONS. IF NO CHOICE IS SPECIFIED, SHARES WILL BE VOTED FOR THE CLASS II DIRECTOR NOMINEES IN THE ELECTION OF DIRECTORS AND FOR THE APPROVAL OF DELOITTE & TOUCHE.

(CONTINUED ON REVERSE SIDE)

<S>	<C>	<C>	<C>	<C>
(1)	PROPOSAL 1: ELECTION OF TWO CLASS II DIRECTORS:			
	Election of R. Maynard Holt	// FOR	// AGAINST	// WITHHOLD AUTHORITY (ABSTAIN)
	Election of James E. Poole	// FOR	// AGAINST	// WITHHOLD AUTHORITY (ABSTAIN)
(2)	PROPOSAL 2: APPROVAL OF DELOITTE & TOUCHE AS INDEPENDENT PUBLIC ACCOUNTANTS.			
		// FOR	// AGAINST	// ABSTAIN
(3)	IN THEIR DISCRETION, ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.			

PLEASE SIGN HERE AND RETURN  
PROMPTLY

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Signature

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Signature (if held jointly)

Date: \_\_\_\_\_, 1994  
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Please sign exactly as your name  
appears at left. If registered  
in the names of two or more

persons, each should sign.  
Executors, administrators,  
trustees, guardians, attorneys,  
and corporate officers should  
show their full titles.

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If you have changed your address, please PRINT your new address on this line.